JCS-39-81

INTRODUCTION

This document is prepared by the staff of the Joint Committee on Taxation for the use of the House and Senate Conferees on H.R. 4242 (Economic Recovery Act of 1981). The first part of the document provides a descriptive comparison of the provisions of H.R. 4242 as passed by the House and by the Senate, with the corresponding provisions under present law. The last part shows summary comparative revenue estimates for the House and Senate versions of the tax bill.

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COMPARISON OF PROVISIONS

I. INDIVIDUAL INCOME TAX REDUCTIONS

Item	Present Law	House bill	Senate Amendment	Conference Agreement
1. Individual rate reductions				
a. General rate reductions	Individual income tax rates range from 14 percent for taxable income above $3,400 on a joint return and $2,300 on a single return. The rates range up to 70 percent on taxable income in excess of $215,400 on a joint return and $108,300 on a single return.	Provides for cumulative across-the-board reductions of 23 percent by 1984 on the following schedule: 1981 .... 1¼ percent 1982 .... 10 percent 1983 .... 19 percent 1984 .... 23 percent Withholding changes take place on October 1, 1981, July 1, 1982 and July 1, 1983.	Same as the House bill.	A
b. Top marginal tax rate	The highest marginal rate is 70 percent on taxable income in excess of $215,400 on a joint return and $108,300 on a single return. However, the top rate on personal service income is limited to 50 percent (the maximum tax). This rate applies above $60,000 on a joint return and $41,500 on a single return.	Reduces the top marginal rate from 70 percent to 50 percent in 1982. Repeals the maximum tax in 1982.	Same as the House bill.	A
c. Top marginal tax rate on capital gains	A deduction from gross income is allowed for 60 percent of any net capital gain for the year. The remaining 40 percent of any net capital gain is taxed at the ordinary rates (up to 70 percent). Thus, the top effective rate on capital gains is 28 percent (70 percent times the 40 percent included in taxable income).	The maximum effective capital gains rate for individuals will be 20 percent on sales or exchanges after June 9, 1981.	Same as the House bill except that the maximum capital gains for individuals rate will apply to sales or exchanges after June 9, 1981. (Date moved from June 10 to June 9 by floor amendment by Senator Dole adopted by voice vote.)	S
d. Holding period for capital gains	The minimum holding period for long-term capital gains is more than 1 year.	The holding period for long-term capital gains will be reduced from 1 year to 6 months for taxable years beginning after December 31, 1981.	No provision.	[illegible]
2. Deduction for two-earner married couples	[illegible]	Provides a deduction for a two-earner married couple in computing adjusted gross income equal to a percentage of the lower earning spouse's qualified earned income up to $30,000. In 1982 the percentage will be 5 percent, [illegible]	Same as the House bill.	A

COMPARISON OF PROVISIONS

A. INDIVIDUAL INCOME TAX REDUCTIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
1. Individual rate reductions				
a. General rate reductions	Individual income tax rates begin at 14 percent on taxable income above $3,400 on a joint return and $2,300 on a single return. The rates range up to 70 percent on taxable incomes in excess of $215,400 on a joint return and $108,300 on a single return.	Provides for cumulative across-the-board reductions of 23 percent by 1984 on the following schedule: 1981 ---------------- 1¼ percent 1982 ---------------- 10 percent 1983 ---------------- 19 percent 1984 ---------------- 23 percent Withholding changes take place on October 1, 1981, July 1, 1982, and July 1, 1983.	Same as the House bill.	A
b. Top marginal tax rate	The highest marginal rate is 70 percent on taxable income in excess of $215,400 on a joint return and $108,300 on a single return. However, the top rate on personal service income is limited to 50 percent (the maximum tax). This rate applies above $60,000 on a joint return and $41,500 on a single return.	Reduces the top marginal rate from 70 percent to 50 percent in 1982. Repeals the maximum tax in 1982.	Same as the House bill.	A
c. Top marginal tax rate on capital gains	A deduction from gross income is allowed for 60 percent of any net capital gain for the year. The remaining 40 percent of any net capital gain is taxed at the ordinary rates up to 70 percent. Thus, the top effective tax rate on capital gains is 28 percent (70 percent rate times the 40 percent included in taxable income).	The maximum effective capital gains rate for individuals will be 20 percent on sales or exchanges after June 8, 1981.	Same as the House bill except that the maximum capital gains for individuals rate will apply to sales or exchanges after June 9, 1981. (Date moved from June 10 to June 9 by floor amendment by Senator Dole, adopted by voice vote.)	S
d. Holding period for capital gains	The capital gains deduction generally applies to assets held more than one year.	The holding period for long-term capital gain or loss treatment is reduced to 6 months for taxable years beginning after December 31, 1981.	No provision.	Open
2. Deduction for two-earner married couples	Married taxpayers generally are treated as a single taxpaying unit. If married taxpayers elect to file separate rather than joint returns, they usually pay a higher tax. The differing rate schedules for single and married taxpayers may give rise to a marriage penalty when two single wage earners of relatively equal income marry each other.	Allows couples filing a joint return a deduction in computing adjusted gross income equal to a percentage of the lower earning spouse's qualified earned income (up to $30,000 of income). In 1982, the percentage will be 5 percent (a $1,500 maximum deduction) and in 1983 and subsequent years the percentage will be 10 percent (a $3,000 maximum deduction).	Same as the House bill.	A

A. INDIVIDUAL INCOME TAX REDUCTIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
3. Indexing	The individual income tax is based on various fixed amounts including the amounts that define the tax brackets, the zero bracket amount, and the personal exemption. These amounts are set by statute and are not adjusted for inflation.	The income tax brackets, zero bracket amount, and personal exemption are adjusted for inflation (as measured by the CPI) starting in 1985.	Same as House bill (Finance Committee floor amendment, adopted by a vote of 57–40).	A
4. Individuals eligible for earned income credit	Individuals eligible for the earned income credit are married individuals entitled to a dependency exemption for a child, surviving spouses, and heads of households who maintain a household for a child. In each case, the child must reside with the taxpayer in the United States.	No provision.	An individual would not be eligible for the credit unless he or she is a citizen of the United States or an alien admitted as a permanent resident. (Floor amendment by Senator Huddleston, adopted by voice vote.) ***Effective date.***—Applies to taxable years beginning after December 31, 1981.	H
5. Child and dependent care credit and dependent care assistance exclusion	There is a tax credit for 20 percent of expenditures for the care of children and other dependents incurred in connection with the taxpayer's employment, up to a maximum of $2,000 of expenditures for each of the taxpayer's first two dependents. The credit is not refundable.	No provision.	Provides a refundable child care credit equal to 30 percent of employment-related expenses of taxpayers with income below $10,000. The credit would be reduced by one percent for each $2,000 of income above $10,000. For taxpayers with income of $30,000 or above, the credit rate would be 20 percent. The maximum amount of employment-related expenses taken into account would be increased to $2,400 (one dependent) and $4,800 (two or more dependents). Expenditures for out-of-home, noninstitutional care of a disabled spouse or dependent are made eligible for the credit. Expenditures for services provided by a dependent care center not in compliance with State or local regulations would not be eligible for the credit. Provides that child care provided by an employer under a written nondiscriminatory plan will not be included in an employee's gross income. In addition, employers would be entitled to a credit equal to 50 percent of the cost of any employer-provided child and dependent care. (Senate floor amendments by Senators Metzenbaum and Durenberger, adopted by voice vote.) ***Effective date.***—Applies to taxable years beginning after December 31, 1981.	Open

A. INDIVIDUAL INCOME TAX REDUCTIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
6. Charitable contribution deduction for nonitemizers	Under present law, charitable contributions may be deducted from adjusted gross income in determining taxable income. Thus, in order for an individual taxpayer to deduct charitable contributions, the taxpayer must itemize deductions.	The provision allows all taxpayers to deduct allowable charitable contributions whether or not they itemize deductions. The deduction would be a percentage of contributions up to a fixed dollar amount of contributions as follows: ***Year*** — ***percentage*** — ***cap*** 1982 — 25 — $100 1983 — 25 — 100 1984 — 25 — 100 1985 — 50 — ---- 1986 — 100 — ---- 1987 — Provision expires. ***Effective date.***—The provision would apply to taxable years beginning after December 31, 1981, and to contributions made after that date. The provision would not apply to contributions made after December 31, 1986.	Similar to House bill; limitations are as follows: ***Year*** — ***percentage*** — ***cap*** 1982 — 25 — $100 1983 — 25 — 100 1984 — 25 — ---- 1985 — 50 — ---- 1986 — 100 — ---- 1987 — Provision expires. (Floor amendment by Senator Packwood, adopted by vote of 97–1.) ***Effective date.***—Same as the House bill.	309 1981 [illegible] [illegible]
7. Gain on sale of residence				
a. Rollover of gain on sale of residence	Gain is generally not recognized on the sale or exchange of a principal residence if the taxpayer purchases a new principal residence within 18 months before or after the sale.	Extends the replacement period to 2 years. ***Effective date.***—Sales or exchanges after July 20, 1981, or before that date if the rollover period had not expired.	No provision.	H
b. Exclusion of gain on sale of residence	Taxpayers, age 55 or over, are allowed a one-time election to exclude up to $100,000 on the sale or exchange of their principal residence.	Increases the exclusion to $125,000. ***Effective date.***—Sales or exchanges after July 20, 1981.	No provision.	
c. Sale of residence by handicapped individual	No provision.	No provision.	The amendment eliminates the age requirement of the present one-time exclusion for certain sales or exchanges of principal residences by severely handicapped individuals. (Floor amendment by Senator Leahy, adopted by voice vote.) ***Effective date.***—Sales or exchanges after the date of enactment.	

A. INDIVIDUAL TAX REDUCTIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
8. Foreign earned income	A deduction is allowed for excess costs of working overseas, including housing in excess of 20 percent of income, for individuals who are overseas for 17 out of 18 consecutive months or who are bona fide residents of a foreign country for an entire taxable year.	A taxpayer may make a binding election to exclude $75,000 in 1982 rising in $5,000 increments to $95,000 of foreign earned income in 1986. In addition, an exclusion is provided for reasonable housing expenses in excess of a base housing amount which is 16 percent of the salary of a GS–14, step 1, limited to earned income. Housing expenses of nonemployees that exceed the base housing amount are a deduction from gross income, but the deduction is limited to nonexcluded foreign earned income. Eligibility is based on 11 out of 12 months overseas or bona fide residence in a foreign country. Individuals paid by the U.S. Government may claim exclusion if they are not eligible for the exclusion in sec. 912 of present law.	Same as House bill, except— (1) Exclusion is the first $50,000 of foreign earned income plus half of the next $50,000. (2) Election is annual. (3) Housing deduction or exclusion is not limited to earned income.	
Camp exclusion	An exclusion of $20,000 is provided for such individuals who reside in a camp located in a hardship area, or who work for a charity in a less developed country. Camp in a hardship area treated as business premises of employer, thereby excluding meals and lodging.	The camp exclusion is the same as present law except that the hardship area requirement is deleted.		

B. CAPITAL COST RECOVERY PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
9. Capital cost recovery provisions—general concept	Designed to allocate depreciation deductions over the period the asset is used in business so that deductions for the cost of an asset are matched with the income produced by the asset.	Cost of an asset is recovered over a predetermined period shorter than the useful life of the asset or the period the asset is used to produce income.	Same as House bill.	
10. Eligible property	Assets used in a trade or business or for the production of income are depreciable if they are subject to wear and tear, decay or decline from natural causes, or obsolescence. Assets that do not decline in value on a predictable basis or that do not have a determinable useful life, such as land, goodwill, and stock, are not depreciable.	Most tangible depreciable property (real and personal) other than— (1) Property not depreciated in terms of years (except certain railroad property), and (2) Property amortized (e.g., leasehold improvements).	Same as House bill, except all race horses and other horses over 11 years old are not eligible property. (Under floor amendment by Senator Huddleston, adopted by voice vote, race horses and old horses are excluded from eligible property.)	
11. Useful lives (recovery periods) and methods ***a. Personal property*** Useful lives (recovery periods)	Under the ADR system, the Treasury, on the basis of actual industry experience, specifies a midpoint life for equipment used in most industries. Taxpayers may elect lives 20 percent longer or shorter than the midpoint life. ADR midpoint lives for equipment range from 2.5 years for certain special manufacturing tools to 50 years for certain public utility equipment.	3 years ---------- Autos, light-duty trucks, R&D equipment and personal property with an ADR midpoint life of 4 years or less. 5 years ---------- Most other equipment except long-lived public utility property. Also includes single purpose agricultural structures and petroleum storage facilities, which are designated as section 1245 property under the bill. 10 years ---------- Public utility property with an ADR midpoint life greater than 18 but not greater than 25 years; railroad tank cars; and real property with an ADR midpoint life of 12.5 years or less (e.g., theme park structures). 15 years ---------- Public utility property with an ADR midpoint life exceeding 25 years.	Same as House bill, except (1) pollution control equipment related to converted coal utilization powerplants and major fuel-burning installations are included in the 3-year class, (2) coal utilization burners and boilers used in powerplants and major fuel-burning installations are included in the 10-year class instead of the 15-year public utility class if they replace, or are conversions of, oil or gas utilization boilers or burners, (3) equipment used to convert such burners and boilers to use coal are also included in the 10-year class, and (4) residential mobile homes are included in the 10-year class. (Floor amendment by Senator Robert Byrd, adopted by vote of 100–0, moved replacement and converted coal-fired burners and boilers and equipment used to convert such boilers and burners to the 10-year class, and pollution control equipment used in connection with coal utilization powerplants and major fuel-burning installations to the 3-year class. Floor amendment by Senator Lugar, adopted by voice vote, added residential mobile homes to the 10-year class.)	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
11. Useful lives (recovery periods) and methods—Continued				
a. Personal property—Continued				
		Special rule.—Taxpayers may elect to use a 5- or 12-year period for 3-year property, a 12- or 25-year period for 5-year property, a 25- or 35-year period for 10-year property and a 35- or 45-year period for 15-year property.	Same as House bill.	
Method	*New property*—election to use straight-line, up to 200% declining balance, or sum of the years-digits (SYD) methods. *Used property*—election to use up to the 150% declining balance or straight-method.	Option to use (1) straight-line over regular or extended recovery period, or (2) over the regular recovery period, a prescribed method equivalent to: 1981–84 ---------- 150% declining balance, changing to straight-line. 1985 ------------ 175% declining balance, changing to SYD. After 1985-------- 200% declining balance, changing to SYD.	Same as House bill.	
b. Real property				
Recovery period	IRS guideline lives range from 40 to 60 years but actual lives claimed under a facts and circumstances approach may be shorter.	Real property assigned a 15-year recovery period, but taxpayers may elect a 35- or 45-year extended recovery period.	Same as House bill.	
Methods	Non-residential property may be depreciated using 150% declining balance (if new) or straight-line method. New residential property may be depreciated using straight-line, 200% declining balance or sum of the year-digits. Used residential may use up to 125% declining balance (if 20 years useful life remaining) or straight-line.	For all real property, option to use (1) accelerated method (200% declining balance with change to straight-line) over the 15-year recovery period or (2) straight-line over either the 15-year period or any optional extended period.	Same as House bill for low-income housing. Other residential property depreciated using 150-percent declining balance method. Nonresidential property also depreciated using 150-percent declining balance method, except 175-percent declining balance method applies in 1985–90. (Under a floor amendment by Senator Dole, adopted by vote of 56–40, accelerated method for real property other than low-income housing was reduced to 150-percent declining balance, changing to straight-line; subsequent floor amendment by Senator Roth, adopted by voice vote, increased the method for nonresidential property to the 175-percent declining balance method for 1985–1990.)	
Special rules	Taxpayer may use different lives for each separate component of a building, such as plumbing, wiring, etc. (component depreciation) or use a single life for the building and all components (composite depreciation).	Composite depreciation required.	Same as House bill.	

B. CAPITAL COST RECOVERY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
12. Special depreciation for small business	Optional bonus depreciation equal to 20% of cost of property up to $10,000 per taxpayer (maximum deduction allowable—$2,000).	Present law replaced with election to deduct immediately (expense) new or used personal property costs up to $5,000 in 1982 and 1983, $7,500 in 1984 and 1985, and $10,000 in 1986 and thereafter.	Same as House bill.	
13. Recapture of depreciation				
a. Personal property	Gain on disposition is ordinary income rather than capital gain to extent of prior depreciation taken (sec. 1245 "recapture").	Same as present law (sec. 1245 recapture). Installment sales treatment (sec. 453) not available to the extent the property was expensed.	Same as House bill.	
b. Real property	Gain on disposition is ordinary income rather than capital gain only to the extent prior depreciation taken exceeds what would have been allowable if straight-line had been used (sec. 1250 "recapture").	*Nonresidential property.*—Section 1245 recapture if accelerated method used. All gain will be capital gain if taxpayer elects straight-line. *Residential property.*—Section 1250 recapture.	Same as House bill. Same as House bill.	
14. Flexibility	a. Option to use useful lives 20% shorter or longer than ADR midpoint lives.	a. Option to use one of two longer recovery periods for each class of property.	a. Same as House bill.	
	b. Option to use straight-line or accelerated methods, where allowed.	b. Option to use an accelerated or straight-line method over the regular recovery period.	b. Same as House bill.	
	c. Net operating losses (NOL's) can be carried back 3 years and forward 7 years.	c. NOL carryover period extended to 20 years.	c. NOL carryover period extended to 10 years.	
	d. Option to use an averaging convention for personal property to determine date of additions to and retirements from an account.	d. Averaging convention for personal property built into proposed rates.	d. Same as House bill.	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
15. Earnings and profits	Distributions to shareholders are taxable as dividends only to extent of earnings and profits. Depreciation deductions reduce earnings and profits. Earnings and profits depreciation based on straight-line depreciation over useful life (including lower limit ADR lives).	Earnings and profits depreciation based on straight-line depreciation over extended recovery periods as set forth below: *Class* — *Extended recovery* 3-year property — 5 years. 5-year property — 12 years. 10-year real and personal property — 25 years. 15-year real and personal property — 35 years. If a taxpayer elects a recovery period longer than the applicable period above in computing the recovery deduction, the period elected must be used in computing earnings and profits.	Same as House bill, except period selected for computing the recovery deduction does not affect the computation of earnings and profits.	
16. Depreciation of assets held outside the United States	Accelerated methods generally allowed. No 20% variance from ADR midpoint life.	*Personal property.*—Recovery allowances computed using 200-percent declining balance method, changing to straight-line, over ADR midpoint lives in effect on January 1, 1981, or if none, 12 years. Option to use straight-line over the regular recovery period or an optional longer recovery period. *Real property.*—35-year recovery period using 150 percent declining balance method, changing to straight-line. Option to use straight-line method over 35 or 45 years.	Same as House bill, except railroad rolling stock of a U.S. person and used to and from the U.S. is not treated as a foreign asset. (Floor amendment by Senator Roth, adopted by voice vote, adds provision for leased railroad rolling stock.)	
17. Add-on minimum tax and maximum tax				
a. Assets subject to application of add-on minimum tax	Personal property leased by individuals, subchapter S corporations, and personal holding companies; and real property.	Same as present law.	Same as House bill.	
b. Amount of tax preference item	Excess of allowable depreciation over amount allowable if straight-line used over useful life (ADR midpoint only).	Excess of depreciation allowed over amount allowable if straight-line were used over the following extended recovery periods: *Class* — *Extended recovery period* 3-year property — 5 years 5-year property — 8 years 10-year personal and real property — 15 years 15-year real property — 15 years 15-year personal property — 22 years	Same as House bill.	

B. CAPITAL COST RECOVERY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
17. Add-on minimum tax and maximum tax—Continued				
c. Tax preference offset for maximum tax	Amount of above tax preference item reduces amount eligible for 50% maximum tax.	No maximum tax offset after 1981 because the maximum rate for all income will be 50% after 1981.	Same as House bill.	
18. Regular investment tax credit				
a. Eligibility	Tangible personal property and other tangible property used in connection with manufacturing, production and certain other activities not including distribution. Does not include leased railroad rolling stock used within and without the U.S. or petroleum storage facilities unless used in connection with production.	Petroleum storage facilities used in connection with distribution activities are added to eligible property.	Same as House bill, except railroad rolling stock of a U.S. person and used to and from the U.S. is added to eligible property. (Floor amendment by Senator Roth, adopted by voice vote, added provision for leased railroad rolling stock.)	
b. Amount of credit	*Estimated useful life (years)* — *Credit (%)* Less than 3 — 0 3–4 — 3⅓ 5–6 — 6⅔ 7 or more — 10	*Recovery period (years)* — *Credit (%)* 3 — 6 5, 10 and 15 — 10	Same as House bill.	
c. Used property limitation	Only $100,000 of used property eligible.	Limitation raised to $125,000 in 1981 and $150,000 in 1985.	Same as House bill. (Under a floor amendment by Senators Durenberger and Weicker, approved by a vote of 92–0, used property limitation reinstated and raised to $125,000 in 1981 and $150,000 in 1985.)	
d. Recapture of credit	Credit recomputed on early disposition as if actual useful life had been used to determine amount of credit.	Credit recomputed on early disposition by allowing 2 percent credit for each year held (no recapture if eligible 5-year, 10-year, or 15-year property actually held for at least 5 years, or if eligible 3-year property is held at least 3 years).	Same as House bill. (Under a floor amendment by Senators Durenberger and Weicker, approved by a vote of 92–0, proceeds-based recapture replaced with the same 2-percent rule as in the House bill).	
e. Carryover of credit	Investment credit can be carried back 3 years and forward 7 years.	Investment credit carryover period extended to 20 years.	Credit carryover period extended to 10 years.	

B. CAPITAL COST RECOVERY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
19. Normalization rules for public utility property				
a. Accelerated depreciation	Tax-depreciation methods more accelerated than ratemaking method must be normalized unless company flowed through accelerated depreciation in 1969.	Except as provided in transition rule, mandatory normalization of depreciation methods for all property placed in service after December 31, 1980. Salvage value rules and placed in service rules are treated as part of depreciation method that must be normalized.	Same as House bill.	
b. Useful life	For companies that must normalize accelerated depreciation, differences between tax useful life and ratemaking useful life must be normalized. For companies other than telephone companies, ADR midpoint life is substituted for ratemaking life, if shorter.	Except as provided in transition rule, mandatory normalization of difference between tax useful life and ratemaking useful life for all property placed in service after December 31, 1980.	Generally, same as House bill.	
c. Investment credit	For companies that must normalize accelerated depreciation, investment tax credit must be normalized.	Except as provided in transition rule, mandatory normalization of ITC for all property placed in service after December 31, 1980.	Generally, same as House bill, except no transition rule and mandatory aspect of normalization is not provided for explicitly.	
d. Transition rules		Taxpayer is considered to satisfy new normalization requirements for depreciation or ITC under a rate order that complies with present law requirement if—(1) rate order was put into effect before date of enactment, and (2) rate order expires by its own term.	Same as House bill, except no transition rule for ITC normalization. (Under floor amendment by Senator Dole, adopted by voice vote, transition rule for accelerated depreciation normalization added.)	
e. Miscellaneous		No provision.	The Secretary is given authority to prescribe any interim regulations necessary to determine whether normalization requirements are met until Congress further clarifies such requirements. (Floor amendment by Senator Cranston, adopted by voice vote.)	
20. At-risk limitation				
a. Depreciation	For certain taxpayers, tax losses limited depending on the activity and the extent to which the taxpayer is at risk.	Same as present law.	Same as House bill.	

B. CAPITAL COST RECOVERY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
20. At-risk limitation—Continued ***b. Investment credit***	No at-risk limitation.	For certain taxpayers, credit limited depending on the activity and extent to which the taxpayer is at risk. Under a safe harbor, a guaranteed or direct Federal, State, or local government loan and amounts borrowed from banks. insurance companies, credit unions, or savings and loan institutions are considered at risk even if the taxpayer is not personally liable to repay the debt.	Same as House bill, except (1) a 20-percent minimum at-risk requirement is imposed for the safe harbor, and (2) the safe harbor is extended to pension trusts and persons in the business of lending money. (Floor amendment by Senator Wallop, adopted by voice vote, added the 20-percent minimum investment limitation and the safe harbor for pension trusts and money lenders.) A special safe harbor applies for the energy credit if taxpayer has a minimum at-risk investment of 25 percent and level loan payments are made. (Floor amendment by Senator Matsunaga, adopted 97–0, added safe harbor for energy credit.)	
21. Qualified progress expenditures	The investment credit is available for qualified progress expenditures made for property with a 2-year normal construction period and at least a seven-year useful life.	Repeals the seven-year useful life requirement.	Same as House bill.	
22. Lease financing	Under IRS guidelines, a transaction is characterized as a lease if— 1. The lessor's minimum at-risk investment in the property throughout the lease term is 20 percent of cost; 2. The lessor has a positive cash flow and a profit from the lease independent of tax benefits; 3. The lessee does not have a right to purchase the property at less than fair market value; and 4. The lessee does not have an investment in the lease and does not lend any of the purchase costs of the owner.	Provides a limited safe harbor that guarantees transactions will be treated as a lease. Safe harbor applies if— (1) Lessor and lessee elect, (2) Lessor is a corporation or partnership of corporations, or grantor trust if grantor and beneficiaries are corporations, (3) 10 percent minimum at-risk investment in property at all times, (4) Property is leased within 3 months of acquisition by the lessor, and (5) Lease does not exceed 90 percent of asset's useful life or, if longer, 150 percent of ADR mid-point life.	Same as House bill. The maximum lease term was extended from ADR mid-point life to the longer of 90 percent of useful life or 150 percent of ADR mid-point life and grantor trusts (the grantor and beneficiaries of which are corporations) were added as eligible lessors.) (Floor amendment by Senator Dole, adopted by voice vote).	

B. CAPITAL COST RECOVERY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
23. Effective dates and phase-in provisions		***In general.***—Applies to property placed in service after December 31, 1980.	Same as House bill, except provisions relating to railroad rolling stock apply for taxable years beginning after December 31, 1980.	
a. Phase-in rules		***Phase-in.***—In general, not applicable. However, the most accelerated method of depreciation for personal property is not available until 1986. (See item 11a.)	Same as House bill.	
b. Anti-churning rules		***Anti-churning rules.***—To prevent the "churning" of used property solely to obtain the benefits of increased investment incentives, "churned" property would be excluded from ACRS and, thus, subject to present law rules. Similar rules would apply to churning of used property solely to obtain the faster methods of depreciation available after 1984.	Generally the same as House bill.	

C. REHABILITATION EXPENDITURES

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
24. Tax credit for rehabilitation expenditures	10% investment tax credit (ITC) for nonresidential rehabilitation, if building is at least 20 years old. No adjustment to basis for credit provided.	ITC for rehabilitation expenditures as follows, but only if straight-line depreciation is elected: ***Type of rehabilitation*** — ***ITC(%)*** Nonresidential buildings 30–39 years old ______ 15 Nonresidential buildings 40 or more years old ______ 20 Residential and nonresidential certified historic structures ______ 25 Basis reduction required for rehabilitation credits other than credit for certified historic rehabilitations. Also, the credit for rehabilitating a residential certified historic structure is unavailable if the structure is used by the taxpayer or a member of the taxpayer's family. ***Effective date.***—Generally applies to expenditures made after December 31, 1981. However, present law credit provisions apply for rehabilitation of a building less than 30 years old if the rehabilitation begins before January 1, 1982.	Generally, same as House bill, except no restriction relating to use by a taxpayer or family member. (Under a floor amendment by Senator Dole, adopted by a vote of 56–40, a basis adjustment was added for rehabilitation credits other than the credit for certified historic rehabilitations.) ***Effective date.***—Same as House bill.	
25. Demolition of historic structures	Buildings constructed or reconstructed at the site of a demolished or substantially altered certified historic structure must be depreciated using the straightline method over its useful life (sec. 167(n)). Demolition costs must be capitalized as part of basis of land and, thus may not be deducted as a loss (sec. 280B).	***Effective date.***—Expenditures made after December 31, 1981.	Same as House bill. (Floor amendment by Senator Chafee, adopted by voice vote, provides for repeal of section 167(n).) ***Effective date.***—Same as House bill.	

D. INCENTIVES FOR RESEARCH AND EXPERIMENTATION

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
26. Tax credit for research and experimentation	Generally, expenditures to develop or create an asset must be capitalized and depreciated or amortized over the life of the asset. However, taxpayers may elect to deduct research and experimental expenditures under special rules (sec. 174).	A nonrefundable 25-percent tax credit for incremental research and experimentation expenditures. Qualifying expenditures consist of in-house and contract research wages and supplies plus certain costs of using computers and other personal property. *Contract research.*—65 percent of total contract amount paid to research firm or university for research (including basic research) qualifies for incremental credit. *Basic research grants.*—Corporate expenditures for basic research to be performed by universities or certain scientific organizations are eligible for the incremental credit. Also eligible are corporate grants to certain funds organized to make basic research grants to universities. ***Effective date.***—Expenditures after June 30, 1981, and before 1986.	In general, same as House bill. (Floor amendment by Senator Glenn, adopted by voice vote, expanded the research wage credit in the committee bill to include research supplies and certain costs of using computers, but not costs of using other personal property.) *Contract research.*—Exact amount paid to reimburse research firm or university for qualifying wages, supplies, or computer costs in research (including basic research) qualifies for incremental credit. *Basic research grants.*—No provision. ***Effective date.***—Expenditures after June 30, 1981, with no termination date.	H
27. Charitable contributions of newly manufactured equipment to universities for research	Deductions for contributions of appreciated ordinary income property to charitable organizations generally are limited to the taxpayer's basis in the property. An exception to this rule is provided for corporate contributions of certain property for use in the care of the needy, the ill, or infants. In such case, the lesser of 50 percent of appreciation plus the basis or twice the basis may be deducted.	Qualified corporate contributions of newly manufactured ordinary income property to a college or university for research or experimental use may be deducted up to the taxpayer's basis plus 50 percent of unrealized appreciation. In no event may the deduction exceed twice the taxpayer's basis. ***Effective date.***—Contributions after enactment.	In general, same as House bill. ***Effective date.***—Same as House bill.	H
28. Rule for allocating R&D expenditures to U.S.-source income	Expenses, losses, and other deductions must be apportioned or allocated to domestic and foreign source income, for purposes of computing the limitation on the foreign tax credit. The Treasury has published regulations (1.861–8) setting forth rules to be followed, including safe harbor rules, in allocating deductions, including deductions for research and development expenses.	Regardless of the source of the income generated by such expenditures, for purposes of computing the limitation on the foreign tax credit (and all other purposes) all expenditures for research conducted in the United States are allocated to U.S.-source income. ***Effective date.***—Taxable years beginning after the date of enactment.	Same as House bill for a one-year period to give time to study the long term impact of the provision. Treasury is required to study the impact of its regulation on R. & D. in the United States and on the availability of the foreign tax credit, and report to the Congress within six months from date of enactment. (Floor amendment by Senator Glenn, adopted by voice votee.) ***Effective date.***—Only the first taxable year of taxpayer beginning after enactment.	H

E. SMALL BUSINESS PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
29. Accumulated earnings credit	An accumulated earnings tax is imposed on earnings accumulated in a corporation to avoid income tax on the corporation's shareholders. In computing the tax base, a credit (of not more than $150,000) is allowed for earnings retained for the reasonable needs of the business.	Increases the maximum accumulated earnings credit to $250,000 except for service corporations in health, law, engineering, architecture, accounting, actuarial science, performing arts and consulting. ***Effective date.***—Taxable years beginning after December 31, 1981.	Same as House bill. ***Effective date.***—Same as House bill.	A
30. Subchapter S corporations	To be eligible to make a subchapter S election, a corporation may not have more than 15 shareholders. Generally, trusts may not be subchapter S shareholders.	Allows 25 or fewer shareholders. Certain testamentary trusts for the benefit of a disabled individual may be a subchapter S shareholder. ***Effective date.***—Taxable years beginning after December 31, 1981.	Same as House bill. Certain trusts treated as grantor trusts may qualify as subchapter S shareholders if the trust distributes all its income, has only one current lifetime beneficiary who is a U. S. citizen or resident, terminates not later than the death of last income beneficiary, and requires any corpus distribution made during lifetime of income beneficiary be made to that beneficiary. (Amended by floor amendment by Senator Byrd (Va.), adopted by voice vote.) ***Effective date.***—Taxable years beginning after December 31, 1981.	S

E. SMALL BUSINESS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
31. LIFO inventory and small business accounting	Taxpayers with inventories must use accrual accounting rather than cash accounting. LIFO is a method of accrual accounting that, during periods of inflation results in the highest cost goods being deducted from income, thus, producing low taxable income. Dollar-value LIFO is an advantageous method of computing LIFO inventories but because of its inherent complexity it is considered by some, especially small businessmen, as unworkable.	Business with average gross receipts of less than $1 million for the preceding 3 years may elect one inventory pool for purposes of dollar value LIFO inventory accounting. Taxpayers electing LIFO will have 3 years (beginning with the year of the election to LIFO) to take back into income inventory writedowns taken in years prior to the year of the LIFO election. The Secretary shall prescribe regulations providing for the simplification of LIFO inventory accounting through the use of published government indexes.	Businesses with average gross receipts of less than $3 million for the preceding 3 years may elect one inventory pool for purposes of dollar value LIFO inventory accounting. Taxpayers electing LIFO will have 3 years (beginning with the year of the election to LIFO) to take back into income inventory writedowns taken in years prior to the year of the LIFO election. The Secretary shall prescribe regulations providing for the simplification LIFO inventory accounting for businesses with gross receipts of less than $3 million through the use of 100 percent of the appropriate components of the consumer price index or producer's price index. Taxpayers may elect to use the link-chain or the index method of accounting for dollar value LIFO inventory without showing that any other method of computing dollar value LIFO inventory is unsuitable or impractical.	H - $2 million
		The Treasury Department is required to report to the Congress by December 31, 1982 on the results of a study on LIFO accounting and use of cash accounting.	The Treasury Department is required to report to the Congress by June 30, 1982 on the results of a study on LIFO accounting and use of cash accounting. (Floor amendment by Senator Mitchell, adopted by vote of 94–0.)	

F. WINDFALL PROFIT TAX AND OTHER ENERGY PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
32. Windfall profit tax provisions				
a. Royalty owner's credit and exemption	Royalty owners are taxed on the windfall profit element of each barrel at rates of 30, 60, or 70 percent depending on the tier of the oil. For oil produced in 1980, a credit of $1,000 was allowed against the windfall profit tax paid by an individual on royalty production.	The royalty owner's credit is increased to $2,500 for 1981. There is a 2-barrel a day exemption for royalty owners in 1982 through 1984 and a 4-barrel a day exemption thereafter.	The royalty owner's credit is made permanent and is increased to $2,500 for 1981 and subsequent years.	
		Effective date.—Oil removed after December 31, 1980.	***Effective date.***—Same as House bill.	
b. Producers exemption	Independent producers are allowed lower rates on up to 1,000 barrels a day of old and stripper oil.	Exempts stripper oil produced by independent producers.	No provision.	
		Effective date.—Oil removed in 1983 and thereafter.		
c. Reduced rate on newly discovered oil	Newly discovered oil is taxed at a 30-percent rate on the difference between its removal price and a severance tax adjustment plus a base price of $16.55 adjusted for grade, quality, location and inflation plus 2 percent.	The tax rate on newly discovered oil is decreased to 15 percent over 5 years: 1982 ---------- 27½ percent 1983 ---------- 25 percent 1984 ---------- 22½ percent 1985 ---------- 20 percent 1986 and thereafter ---------- 15 percent	Same as House bill. (Floor amendment by Senator Dole, adopted by voice vote, reduced the rates in the Committee amendment by an additional 2½ percent in 1982 and 1984.)	
		Effective date.—Oil removed after December 31, 1981.	***Effective date.***—Same as House bill.	
d. Qualified charities	Exempts from the tax certain oil interests of qualifying educational and medical charities.	Exempts certain oil interests of residential child care agencies.	Same as House bill, (Floor amendment by Senator Cochran, adopted by adopted by division.)	
		Effective date.—Taxable periods after 1980.	***Effective date.***—Same as House bill.	

F. WINDFALL PROFIT TAX AND OTHER ENERGY PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
33. Percentage depletion for oil and gas	Under a 1975 amendment, the rate of percentage depletion for oil and gas which was 22 percent, is scheduled to phase down to 20 percent in 1981, 18 percent in 1982, 16 percent in 1983, and 15 percent in 1984 and thereafter.	Continues percentage depletion at the 22-percent rate. ***Effective date.***—Taxable years ending after December 31, 1980.	No provision.	
34. Tax credit for woodburning stoves	There is a 15-percent tax credit for expenditures for insulation and certain other energy conservation components for a principal residence.	Extends the 15-percent credit to woodburning stoves. ***Effective date.***—Purchases after July 24, 1981.	No provision.	
35. Production credit for certain gases	Allows credit for production of certain high cost gases.	No provision.	Provides no credit is available unless elected on the tax return. (Floor amendment by Senator Tower, adopted by voice vote.) ***Effective date.***—Taxable years beginning after 1979.	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
36. Corporate tax rate reductions	The corporate income tax is imposed at the following rates: *Taxable income*— *Rate* Less than $25,000 17 25,000–50,000 20 50,000–75,000 30 75,000–100,000 40 Over $100,000 46	The brackets below $50,000 would be adjusted as follows: ***In 1982***— Less than 25,000 16 $25,000–50,000 19 ***1983 and later years***— Less than $25,000 15 $25,000–$50,000 18	Same as House bill. (Floor amendment by Senator Weicker adopted by vote of 92–0.)	A
37. Stock options	If an employee receives a stock option with an ascertainable value, that value is taxed as ordinary income when the option is received. If the value of the option is not ascertainable, the employee is taxed, at ordinary rates, upon exercise of the option. The employer is allowed a deduction for amounts included in the employee's income. Prior law permitted issuance of qualified stock options which were taxed only when the stock was sold by the employee.	*Restricted stock options*— Generally, reinstates prior law. Thus, no tax consequences result from granting of a restricted stock option or from exercise of the option by the employee. The employee will be taxed generally at capital gains rates when the stock received in exercise of the option is sold if the option/stock was held at least 2 years and the stock was held at least 1 year. Several requirements must be satisfied with respect to employment status, option plan, price, time and order of exercise, stock ownership and transferability, including:	*Incentive stock options*— Generally same except:	
		(1) Term of option may be 10 years. (2) No shareholder approval required.	(1) Term of option may be 20 years. (2) Shareholder approval required.	
		(3) Option price must equal or exceed 85 percent of value of stock.	(3) Option price must equal or exceed value of stock.	
		(4) Disabled employee may exercise option within 12 months of leaving employment.	(4) No special rule (3 month rule applies).	
		(5) No provision.	(5) Employer may pay cash when option exercised.	
		(6) Plan must limit maximum amount of restricted options to $75,000/year granted to any employee.	(6) No provision.	
		Effective date.—Options exercised after December 31, 1980. Option must have been granted after May 21, 1976, and, in case of options granted before July 24, 1981, and exercised after that date, limited to a total of $150,000.	***Effective date.***—Options exercised after December 31, 1980. In case of options granted before December 31, 1980, corporation may elect to have option treated as incentive stock option. Total limit on these incentive options is $50,000 per year and $250,000 in the aggregate. (As amended by floor amendment by Senator Dole, adopted by division.)	
		Transition rule allows modification of existing options within one year.	Generally the same.	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
38. Extension and modification of targeted jobs tax credit	The targeted jobs tax credit, which applies to eligible trade or business wages paid before January 1, 1982, is available on an elective basis for hiring individuals from one or more of seven target groups. In general, the credit is equal to 50 percent of the first $6,000 of first-year wages and 25 percent of the first $6,000 of second-year wages. Qualified first-year wages are limited to 30 percent of FUTA wages (the first $6,000 per calendar year) for all employees. In the case of trade or business employment, taxpayers are allowed a WIN tax credit equal to 50 percent of qualified first-year wages and 25 percent of qualified second-year wages paid to WIN registrants and AFDC recipients. For employment other than in a trade or business, the credit is 35 percent of qualified first-year wages.	Provides that credit is available for wages paid or incurred before January 1, 1984. The provision limiting qualified first-year wages to 30 percent of FUTA wages is repealed.	Provides that full credit is available for targeted employees who begin work before January 1, 1983. For cooperative education students, qualified first-year wages are limited to $3,000 and qualified second-year wages are limited to $1,500. Qualified first-year wages may be at least $25,000, regardless of the 30-percent FUTA wage cap.	
		Targeted groups.—Makes several changes to targeted groups. AFDC recipients and WIN registrants are added as a targeted group, and the WIN credit is terminated. Eligible cooperative education students are limited to those who are economically disadvantaged, effective for wages paid after December 31, 1981. The age limitation for Vietnam veterans (under age 35) is eliminated and employees laid off from public service employment funded by CETA are made eligible for the credit.	*Targeted groups.*—Makes several changes to targeted groups. AFDC recipients and WIN registrants are added as a targeted group, and the WIN credit is terminated. The age limitation for Vietnam veterans (under age 35) is eliminated, and general assistance and Supplemental Security Income recipients are removed as targeted groups. Employees laid off from public service employment funded by CETA are made eligible for the credit.	
		Certification.—Several changes are made to the certification requirements. Certifications issued or requested after the individual begins work will be invalid; certifications that individuals are members of economically disadvantaged families are valid for a minimum of 45 days; the credit is not allowed for rehires; and certification and marketing are to be performed by State employment security agencies.	*Certification.*—Several changes are made to the certification requirements. Certifications issued or requested after the individual begins work will be invalid; certifications that individuals are members of economically disadvantaged families are valid for a minimum of 45 days; the credit is not allowed for rehires; certifications based on false information provided by the employee are revoked prospectively; and certification and marketing are to be performed by State employment security agencies.	
		Hiring of relatives.—The credit is denied for hiring relatives of the employer.	*Hiring of relatives.*—Same as the House bill.	
			For fiscal year 1982, $30 million of appropriations is authorized for program administration, of which $5 million is to be used for a quality control program. (Floor amendment by Sen. Heinz, adopted by a vote of 95–3.)	
		Effective date.—Generally effective for individuals beginning work after December 31, 1981. Changes in certification requirements apply to individuals who begin work after the date of enactment.	***Effective date.***—Generally effective for wages paid to individuals first beginning work after date of enactment. Changes in certification requirements requiring certification before the employee begins work apply to individuals who begin work after July 23, 1981 or with respect to whom the employer has not received a certification by this date.	

G. CORPORATE RATE REDUCTIONS AND OTHER BUSINESS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
39. Motor carrier operating rights	Deductions are allowed for losses incurred in a trade or business; however, no deduction is allowed for a decline in value of property absent a sale, abandonment, or other disposition.	Taxpayers who held motor carrier operating authorities on July 1, 1980, (the date of enactment of the Motor Carrier Act of 1980) may deduct the adjusted basis of such authorities ratably over a 60-month period beginning July 1, 1980. ***Effective date.***—Taxable years ending after June 30, 1980.	Generally the same as the House bill. ***Effective date.***—Same as House bill.	A [illegible]

H. SAVINGS INCENTIVES PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
40. Self-employed retirement savings (Keogh plans)				
a. Annual contribution limit	Self-employed individuals may contribute up to the lesser of $7,500 or 15 percent of earnings to a Keogh plan. Excess contributions to a Keogh plan are subject to a 6-percent excise tax.	Increases contribution limit to $15,000 or 15 percent of earnings. Permits penalty-free correction of excess contribution to a Keogh plan, if excess is withdrawn before return filing date.	Same as House bill, except no provision relating to excess contributions to Keogh plans.	
b. Loans to self-employed individuals	Borrowing from the plan is permitted under certain circumstances by employees other than owner-employees. If an owner-employee borrows from or against his Keogh plan the transaction is taxed as a distribution of plan benefits.	If a self-employed individual borrows from or against his Keogh plan, the transaction is taxed as a distribution of plan benefits.	Same as House bill.	
c. Compensation limit	In testing for discrimination, only the first $100,000 of compensation may be taken into account.	The $100,000 amount is increased to $200,000. However, if compensation in excess of $100,000 is considered, the minimum contribution for common-law employees who are plan participants is 7½ percent.	Same as House bill. (Senate floor amendment by Senator Specter, adopted by voice vote, increased amount from $150,000 to $200,000.)	
d. Plan termination distribution	Keogh plan generally must preclude distributions to owner-employees before 59½. If an early withdrawal violates the rule, no contributions may be made to a Keogh plan for the owner-employee for the next five years.	The five-year ban on contributions does not apply if the early withdrawal is on account of termination of the Keogh plan.	No provision.	
		Effective date.—Taxable years beginning after December 31, 1981, with a transitional rule for certain existing loans from plans.	***Effective date.***—Same as House bill.	

H. SAVINGS INCENTIVES PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
41. Individual retirement accounts				
a. Individuals not participating in qualified plans, etc.	Individuals not participating in other plans may deduct contributions to IRAs up to the lesser of $1,500 or 15 percent of compensation. The limit is increased to $1,750 for equally divided contributions to IRAs for individuals and nonworking spouses.	Increases the limit on IRAs to the lesser of $2,000 or 100 percent of compensation. ($2,250 or 100 percent for a spousal IRA). Deletes equal-division rule.	Same as the House bill.	
b. Active participants	Active participants in employer-sponsored plan may not deduct IRA contributions.	Active participants may deduct contributions up to the same limits as apply to nonparticipants.	Active participants may deduct contributions up to $1,500 or 100 percent of compensation to IRA ($1,625 to a spousal IRA).	
c. Voluntary employee contributions to qualified plans	No deduction is permitted for employee contributions to qualified plans.	Voluntary contributions are subject to IRA limits and to IRA-type rules, except distributions starting at age 70½ are not mandated.	Same as the House bill, except that "made available" rule is deleted only for deductible employee contributions and investment earnings thereon.	
	Plan benefits are taxed when paid, distributed, or made available.	"Made available" rule deleted for benefits under qualified plans.		

H. SAVINGS INCENTIVES PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
41. Individual retirement accounts—Continued				
d. Contributions by non-working former spouse	No deduction is permitted for IRA contributions if taxpayer has no compensation includible in gross income.	No provision.	Surviving or divorced spouse may deduct at least $1,125 annually for life for contributions to a spousal IRA established by former spouse at least five years before death or divorce. (Senate floor amendment by Senator Grassley, adopted by voice vote.)	
e. Rollovers	IRA-to-IRA rollovers are limited to one per year.	All or any portion of any distribution of accumulated deductible employee contributions may be rolled over to an IRA.	Same as House bill.	
f. Investments in collectibles	Individuals may generally self-direct IRA investments or investments under an account in a qualified plan.	Amounts invested in collectibles (antiques, art, gems, stamps, *etc.*) under IRAs or self-directed accounts in qualified plans are treated as distributions for income tax purposes.	No provision.	
g. Qualified bond rollovers	U.S. retirement bonds distributed under a qualified bond purchase plan may be redeemed after age 59½, death, or disability. Redemption proceeds may not be rolled over to an IRA or qualified plan.	Redemption proceeds may be rolled over, tax-free, to an IRA.	No provision.	
h. Study of retirement savings tax incentives	No provision.	No provision.	Requires the Treasury to provide to the Congress before June 30, 1982, a study of the effectiveness of tax incentives for individual retirement savings. (Senate floor amendment by Senator Heinz, adopted by voice vote.)	
		Effective date.—Taxable years beginning after December 31, 1981.	***Effective date.***—Taxable years beginning after December 31, 1981.	

H. SAVINGS INCENTIVES PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
42. Partial dividend and interest exclusion	Individuals may exclude from income up to $200 ($400 on a joint return) of dividends and interest earned from most domestic sources in 1981 and 1982. After 1982, only the $100 per taxpayer dividend exclusion of prior law will be available.	Repeals present law after 1981 and reinstates the $100 per taxpayer dividend exclusion of prior law for 1982 and subsequent years. Starting 1985, there will be a 15-percent net interest exclusion (up to $450 on a single return and $900 on a joint return). Net interest is interest income in excess of interest expense other than interest paid on the mortgage of the taxpayer's dwelling or in connection with a trade or business.	Same as House bill, except— (1) net interest exclusion applies starting in 1984, (2) the dividend exclusion is converted to $100 for a single return and $200 for a joint return regardless of which spouse receives the dividend. (Committee amendment modified by amendment by Senator Schmitt on length of issuance period and net-interest exclusion, adopted by a vote of 56–40). (Floor colloquy indicates intent to make certain interest from real estate investment trusts, regulated investment companies and insurance companies eligible for net interest exclusion.)	1985 S
43. Tax-exempt savings certificates	No provision.	Up to $1,000 ($2,000 on a joint return) of interest earned on one-year certificates issued by depository institutions between October 1, 1981, and December 31, 1982, would be exempt from tax. The certificates must be issued at 70 percent of the 52-week Treasury bill rate. 75 percent of proceeds are linked to residential financing and agricultural loans. The linkage requirements do not apply to credit unions; instead, credit unions are limited in the amount of all savings certificates they may issue. Loans secured by cooperative housing stock are considered residential financing. *Effective date.*—Taxable years ending after September 30, 1981.	Generally, same as House bill. No restrictions are placed on amount of certificates issued by credit unions or on investment by credit unions. Loans securied by stock of a cooperative housing corporation are not treated as residential financing. (Committee bill modified by amendments by Senator Bentsen linking proceeds to residential financing, adopted by a vote of 86–10, and by Senator Schmitt on length of issuance period, adopted by a vote of 56–40.) ***Effective date.***—Same as House bill.	H H

H. SAVINGS INCENTIVES PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
44. Employee Stock Ownership Plans (ESOPs)				
a. Payroll-based tax credit	An employer is entitled to an additional percentage point of investment tax credit (*i.e.*, 11 percent rather than 10 percent) if it contributes an amount equal to the credit to a tax credit ESOP. In addition, up to one-half of one percent of extra investment credit is allowed for contributions matched by employee contributions. The credit expires after 1983.	No provision.	The additional investment tax credit terminates after 1982. A new income tax credit is allowed for contributions to a tax credit ESOP. The credit is limited to the following percentages of compensation paid to employees under the plan: *Percent* 1983 ---------- 0.50 1984 ---------- 0.75 1985 and thereafter---------- 1.00 The credit is not available if contributions for officers, etc., exceed specified limits.	
b. Deductible contributions to leveraged ESOPs	(*i*) *Deduction limit* An employer's deduction for contributions to a leveraged ESOP (including contributions paid to service the loan) generally is limited to 15 percent of compensation of all employees under an ESOP stock bonus plan (25 percent if a pension plan is also a part of the ESOP).	No provision.	(*i*) *Deduction limit* An unlimited deduction is permitted for amounts applied to interest on the loan and a 25 percent of compensation limit applies to contributions used to pay loan principal.	
	(*ii*) *Contribution limit* Annual additions credited to any participant's account generally cannot exceed the lesser of $41,500 for 1981, or 25 percent of compensation. This limit is increased if no more than one-third of the employer contribution is allocated to officers, 10 percent shareholders, and highly paid employees.	No provision.	(*ii*) *Contribution limit* If contributions for officers, etc., do not exceed specific limits, contributions for loan interest and forfeitures of fully leveraged ESOP stock are disregarded for purposes of the contribution limits.	
c. Distributions from ESOPs	(*i*) *84-month rule* Employer securities allocated to an employee's account generally may not be distributed from the account before the end of 84 months. An exception applies for death, disability or separation from service.	No provision.	(*i*) *84-month rule* Additional exceptions to the 84 month rule apply in the case of the sale of corporate assets or the disposition of a subsidiary.	
	(*ii*) *Cash distributions and put options* A participant in an ESOP must have the right to demand distribution of employer securities rather than cash and, if the securities are not readily tradeable, to insist that the employer provide a put option.	No provision.	(*ii*) *Cash distribution and put options* Several changes are made in the cash distribution and put option rules to reflect State law or corporate charter restrictions that may prevent compliance with present law rules.	

H. SAVINGS INCENTIVES PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
44. ESOPs—Continued				
d. Stock voting rights for closely held employers	On major corporate issues, employee must be entitled to vote stock allocated to him under a defined contribution plan of a closely-held corporation, including leveraged ESOP or tax-credit ESOP.	No provision.	Rule repealed for all but tax-credit ESOP's. (Senate floor amendment by Senator Stevens, adopted 94–3.) ***Effective date.***—Taxable years beginning after December 31, 1981 (except amendments to the 84-month rule, which apply to distributions made after March 29, 1975.)	
e. Preemption of State law	Present law (ERISA) generally supersedes State law relating to pension plans but does not supersede State laws relating to securities.	No provision.	Amends the non-tax rules of ERISA to supersede State securities laws to permit Continental Airlines to establish and maintain an ESOP, to issue previously authorized stock to an ESOP, to permit the company to guarantee a loan to the ESOP, and to permit the ESOP to distribute company stock to employees and beneficiaries. (Senate floor amendment by Senator DeConcini, adopted by voice vote.) ***Effective date.***—Effective upon enactment.	
45. Dividend reinvestment plans	Non-pro rata stock dividends in lieu of cash are taxable at their fair market value when received.	Permits utility corporations to establish dividend reinvestment plans. Individuals may exclude stock dividends received through such a plan from income (up to $1,500 a year, $3,000 in a joint return) if specific requirements are met by the utility and the shareholders. Shareholders will have a zero basis in the stock and realize gain upon sale of the stock, if held more than one year. ***Effective date.***—Distributions after December 31, 1981.	No provision.	
46. Qualified group legal services plans	Employer contributions to and benefits provided under a qualified plan are excluded from employee's income. Income exclusion expires December 31, 1981.	No provision.	The income exclusion is extended for three years until December 31, 1984. (Senate floor amendment by Senator Dole for Senator Packwood, adopted by voice vote.)	

I. ESTATE AND GIFT TAX PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
47. Unified credit	Estate and gift taxes are unified so that a single progressive rate schedule is applied to cumulative gifts and bequests. A unified credit of $47,000 is allowed against the gross gift and estate tax. With a unified credit of $47,000, there is no gift or estate tax on transfers up to $175,625.	The unified credit is increased as follows: Gifts made, and decedents dying, in: 1982 ---------- $62, 800 1983 ---------- 79, 300 1984 ---------- 96, 300 1985 ---------- 121, 800 1986 ---------- 155, 800 1987 and thereafter---- 192, 800. Thus, transfers of the following size are exempt from the unified gift and estate tax: 1982 ---------- $225, 000 1983 ---------- 275, 000 1984 ---------- 325, 000 1985 ---------- 400, 000 1986 ---------- 500, 000 1987 and thereafter---- 600, 000.	The unified credit is increased as follows: Gifts made, and decedents dying, in: 1982 ---------- $62, 800 1983 ---------- 79, 300 1984 ---------- 104, 800 1985 ---------- 138, 800 1986 and thereafter---- 192, 800. Thus, transfers of the following size are exempt from the unified gift and estate tax: 1982 ---------- $225, 000 1983 ---------- 275, 000 1984 ---------- 350, 000 1985 ---------- 450, 000 1986 and thereafter---- 600, 000.	Senate amdt
48. Rate reduction	The unified gift and estate tax rates range from 18 percent on taxable transfers under $10,000 to 70 percent on taxable transfers in excess of $5 million.	The maximum gift and estate tax rates are reduced from 70 percent to 50 percent, phased-in as follows: Gifts made, and decedents dying, in: *Percent* 1982---------- 65 1983---------- 60 1984---------- 55 1985 and thereafter---- 50.	No provision.	Senate amdt
49. Marital deduction	An estate tax marital deduction is allowed for property passing to a surviving spouse. This deduction generally is limited to the greater of $250,000 or one-half the adjusted gross estate. Similarly, a gift tax marital deduction is allowed for the first $100,000 of gifts to the spouse and for 50 percent of gifts in excess of $200,000. Transfers of terminable interests generally do not qualify for the gift or estate tax marital deductions.	An unlimited marital deduction is allowed for estate and gift tax purposes, and certain terminal interests also qualify for the deduction. ***Effective date.***—Gifts made after, and decedents dying after, December 31, 1981. A transition rule is provided with respect to transfers resulting from a will executed, or trust created, before the date which is 30 days after enactment, which contains a maximum marital deduction clause.	Same as House bill. (Deduction with respect to certain terminable interests added by a floor amendment introduced by Senator Symms, which was adopted by voice vote.) ***Effective date.***—Same as House bill. Same as House bill.	H

I. ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
50. Current use valuation	For estate tax purposes, real property ordinarily must be included in a decedent's estate at its highest and best use value. However, if certain requirements are met, family farms and real property of a closely-held business may be valued on the basis of their current use. The resulting reduction in the taxable estate may not exceed $500,000.	The $500,000 limitation on reduction in fair market value is increased to $1 million, as follows: *Year of Death* — *Limitation Amount* 1981 -------------- $750, 000 1982 ------------- 875, 000 1983 and thereafter ----- 1, 000, 000.	The $500,000 limitation on reduction in fair market value is increased to $600,000 for decedents dying after December 31, 1981. (Floor amendment by Senator Baucus, adopted by voice vote.)	1981 [illegible] 1982 [illegible] 1983 [illegible]
a. Predeath qualification requirements				
Qualified use	Qualified real property must have been used or held for use in a farming or other closely-held business of the decedent for 5 of 8 years preceding the decedent's death and on the date of death.	Qualified use test may be met if the property is used in a farming or other closely-held business of any family member, retroactive to certain decedents dying after December 31, 1976.	Same as House bill, but effective with respect to decedents dying after December 31, 1981.	Senate recedes
Material participation	The decedent or a family member must have materially participated in the operation of the farm or closely-held business for a period aggregating 5 of 8 years immediately preceding death.	Changes the time period for determining material participation so that the 5 of 8 years test applies to the period ending on the earliest of— (1) the date the decedent died, (2) the date the decedent became disabled, or (3) the date the decedent retired.	Same as House bill.	H
b. Valuation method	One method of valuing farm property is by applying a formula to the average annual gross cash rental of comparable land.	Permits the use of net crop share rentals in the formula method if comparable cash rentals are not available.	Same as House bill.	H
c. Woodlands	Timber is treated like other growing crops and, thus, is not subject to current use valuation although the land supporting the timber is subject to current use valuation. Other requirements are the same for timber operations as for other farming operations.	The executor may elect to treat standing timber as part of the real estate in applying current use valuation and to treat active management with respect to woodlands as material participation.	The executor may elect to treat standing timber as part of the real estate in applying current use valuation.	[illegible]

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
50. Current use valuation—Continued				
d. Recapture rules	If, within 15 years of the decedent's death (and before the death of the qualified heir), the property is disposed of to a non-family member or ceases to be used in a qualified use, all or a portion of the estate tax benefits of current use valuation are recaptured.	The recapture period is reduced to 10 years.	Same as House bill.	Senate rule A A
		Like-kind exchanges are not treated as dispositions if the property received in the exchange is used in the same qualified use as the exchanged property.	Same as House bill.	
	Failure of a qualified heir to materially participate is treated as a cessation.	Active management is treated as material participation in the case of heirs who are spouses, disabled, students, or minors.	Same as House bill.	
	If the heir elects, an involuntary conversion is not treated as a disposition.	Involuntary conversions are automatically not treated as dispositions to the extent the proceeds are reinvested in qualified property used for the same qualified use.	Same as House bill.	
	If current use valuation is used, the heir's income tax basis in the property is the current use value. No adjustment is made if a recapture tax is imposed.	If a recapture tax is paid, the income tax basis is increased at the election of the qualified heir to the fair market value of the property as of the decedent's death. This increase occurs as of the time of the disposition or cessation of use. The heir must pay interest on the recapture tax commencing with the date which is nine months after decedent's death.	Same as House bill, except that the increase occurs automatically and no interest is assessed.	[illegible]
	Qualified heir must use the property in its qualified use for the 15-year recapture period beginning at the date of the decedent's death.	Creates a 2-year grace period for qualified use requirement immediately after decedent's death. Recapture period is extended by corresponding period. Change is retroactive to certain decedents dying after December 31, 1976.	Same as House bill, except grace period is 1 year and change is not retroactive.	[illegible] guardian [illegible]
		Miscellaneous other technical changes.	No comparable provisions.	
		Effective date.—In general, decedents dying after December 31, 1981, or certain transfers occurring after that date. However, certain technical changes have retroactive effective dates.	*Effective date.*—Decedents dying after December 31, 1981.	
51. Transfers within 3 years of death	Generally, property transferred by a decedent within three years of death is included in the gross estate and valued as of the date of death. A credit is allowed for gift tax paid on the transfer.	Gifts within 3 years of death (other than certain types of property covered by secs. 2036, 2037, 2038, 2041, and 2042) are treated as included in gross estate only for purposes of qualifying for current use valuation, deferred payments of estate tax, qualified redemptions to pay estate tax, and estate tax liens.	Gifts included in gross estate under the 3-year rule are valued as of the date of the gift.	[illegible]
		Effective date.—Decedents dying after December 31, 1981.	*Effective date.*—Same as House bill.	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
52. Time for payment of estate tax attributable to closely held businesses	Two overlapping provisions allow deferred payment of estate taxes attributable to interests in closely-held businesses.	The most liberal provisions of the two sections are combined into one provision permitting deferred payment if interests in closely held businesses constitute 35 percent of the adjusted gross estate.	The most liberal provisions of the two provisions are combined into one provision. Deferred payment is permitted if interests in closely-held businesses constitute 35 percent of the gross estate or 50 percent of the taxable estate.	Senate recedes
	There is no method of obtaining judicial review of IRS determinations on qualification or acceleration.	Judicial review is provided to determine eligibility for deferral and whether acceleration is proper.	No provision.	House recedes
	Unpaid deferred tax is accelerated upon death of heir.	No acceleration of unpaid tax upon death of heir if property passes to family member.	Same as House bill, except property not required to pass to family member. (Floor amendment by Senator Symms, adopted by voice vote.)	Senate recedes
		Effective date.—Decedents dying after December 31, 1981.	***Effective date.***—Same as House bill.	
53. Disclaimers	If a person makes a qualified disclaimer, that person is treated as never having received the property for estate and gift tax purposes. To be effective for Federal tax purposes, the disclaimer must be effective under local law without direction by the disclaiming person.	A timely transfer of property to the person who would have received it had an effective disclaimer been made under the applicable local law is considered an effective disclaimer for purposes of Federal estate and gift taxes where the other requirements of qualified disclaimers are met.	Same as House bill except for technical language differences.	Senate recedes
		Effective date.—Transfers after December 31, 1981.	***Effective date.***—Same as House bill.	
54. Basis of property received within 3 years of death	Basis of property passing at death is generally adjusted to fair market value at date of death.	Basis of appreciated property acquired by gift within 3 years of death not adjusted if property returned to donor (or donor's spouse.)	No provision.	1 year
		Effective date.—Property acquired after December 31, 1981, by decedents dying after that date.		

I. ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
55. Certain charitable contributions				
a. Copyrightable works	In general, where a charitable transfer is an interest which is less than the donor's entire interest in property, present law requires that the gift be made in certain specified forms to be deductible. The Internal Revenue Service takes the position that an original work of art and a copyright interest relating to that work of art are two interests in the same property. Accordingly, no charitable deduction is allowable where an individual gives the original work of art to charity but retains the copyright.	Where a donor or decedent makes a qualified contribution of a copyrightable work of art, the work of art and its copyright will be treated as separate properties for purposes of the estate and gift tax charitable deduction. Thus, a charitable deduction would be allowed for transfer of a work of art to a charitable organization whether or not the copyright itself is simultaneously transferred to the charitable organization. To qualify, the contribution must be made to a public charity or private operating foundation and its use by the donee must be related to the donee's charitable purpose. ***Effective date.***—Transfers made after December 31, 1981.	No provision.	Senate recede
b. Special gift to Smithsonian Institution	Bequests to the Smithsonian Institution are deductible for Federal estate tax purposes. No credit against Federal estate tax is allowable for property transferred to the Smithsonian Institution.	No provision.	Permits a credit against the estate tax imposed on the estate of D. M. Kunhardt equal to the smallest of (1) total estate tax, (2) fair market value of Matthew Brady Glass Plate Negatives transferred to the Smithsonian Institution, or (3) $700,000, to encourage transfer of those negatives to the Smithsonian. (Floor amendment by Senator Goldwater, approved by unanimous consent.)	[illegible]
56. Certain bequests, etc. to minor children	Permits a limited deduction for certain property passing to certain orphaned minor children. The amount of the deduction is limited to $5,000 multiplied by the excess of 21 over the child's attained age, in years, on the date of decedent's death.	Repeals the deduction for certain bequests, etc. to minor children. ***Effective date.***—Decedents dying after December 31, 1981.	No provision.	Senate recede
57. Generation-skipping transfer tax	The Tax Reform Act of 1976 imposed a tax on generation-skipping transfers. A transitional rule exempts from the tax generation-skipping trusts created by wills or revocable trusts in existence on June 11, 1976, if (1) such wills and trusts were not amended after that date to create or increase the amount of a generation-skipping transfer, and (2) the testator or trust grantor dies before January 1, 1982.	No provision.	The January 1, 1982, date contained in the present transitional rule is extended one additional year to January 1, 1983. (Floor amendment by Senator Symms, adopted by voice vote.)	[illegible]

I. ESTATE AND GIFT TAX PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
58. Annual gift tax exclusion	An annual exclusion from the gift tax of $3,000 per donee is allowed with respect to gifts of present interests in property.	The amount of the annual exclusion is increased from $3,000 to $10,000, plus an unlimited exclusion for amounts paid for benefit of an individual for medical expenses and school tuition.	The amount of the annual exclusion is increased from $3,000 to $10,000 per donee.	Senate recede
		Effective date.—Gifts made after December 31, 1981.	***Effective date.***—Same as House bill.	
		Transition rule is provided for trusts with powers of appointment defined by reference to the exclusion for indefinite period.	Same as House bill.	
59. Annual payment of gift tax	A gift tax return must be filed, and any gift tax paid, on a quarterly basis if the sum of (1) the taxable gifts made during the calendar quarter, plus (2) all other taxable gifts made during the taxable year (for which a return has not yet been required to be filed) exceeds $25,000.	Provides that gift tax returns are to be filed, and any gift tax paid, on an annual basis. In general, the due date for filing the annual gift tax return is April 15.	No provision. (However, the Finance Committee has agreed to report out as a separate bill, S. 955, sponsored by Senator Byrd of Virginia, which provides that gift tax returns are to be filed, and any gift tax paid, on an annual basis.)	Senate recede
		Effective date.—Gifts made after December 31, 1981.		

J. TAX STRADDLES

Item	Present law	House Bill	Senate Amendment	Conference Agreement
60. Gains or losses on straddles **a. *Straddles in futures contracts only***	Generally, gain or loss on property is recognized at time of its disposition. In Rev. Rul. 77–185, IRS denied deduction for losses on certain partial dispositions of straddles on grounds transaction was incomplete, tax-motivated, and not reflective of true economic position.	No provision.	All futures contracts marked-to-market at year end and taxed as if 60 percent of capital gains and losses are long-term and 40 percent are short-term. Net losses under mark-to-market rule may be carried back 3 years against mark-to-market gains. Taxpayers may elect mark-to-market for entire 1981 tax year at lower split rate. *Transition rule:* Tax on gains rolled into 1981 may be paid in five annual installments with interest, and with first payment due with 1981 taxes. (Floor amendment by Sen. Moynihan, adopted by voice vote.)	
b. *Straddles in futures contracts and other property*		Straddle losses disallowed to extent they exceed straddle and net non-straddle commodity gains. Disallows losses carried forward as straddle losses in succeeding years.	Deduction of straddle losses allowed only to extent losses exceed unrealized gains on offsetting positions. Disallowed losses deferred. Generally not applicable to contracts marked-to-market. Wash sale and short sale principles extended to straddles by regulation.	
c. *Covered property*		*Commodity-related property* includes— futures contracts, forward contracts, actual commodities (including metals), Treasury bills, other debt instruments, currency, interests in foregoing.	*Property* subject to loss deferral rule— actively traded personal property (other than stock).	
d. *Exclusions*		*Exclusions:* real estate, stock (other than commodity substitute stock), interest income, and short-term stock options.	*Exclusions:* real estate, stock, short-term stock options.	
e. *Attribution*		*Attribution:* To and from related persons and flow-through entities.	*Attribution:* To and from related persons, except only from flow-through entity to taxpayer.	
f. *Related person*		*Related persons:* 1. taxpayer, spouse, and minor child, 2. taxpayer and person under common control (sec. 414(b) or (c)), or 3. relationship subject to loss disallowance (secs. 267 or 707(b)).	*Related persons:* 1. taxpayer and spouse, or 2. taxpayer and person with whom taxpayer files consolidated return (sec. 1501).	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
61. Interest and carrying charges	Interest and carrying charges to purchase or carry a commodity held for investment are deductible currently.	Interest and carrying charges must be added to basis of commodity if held in a straddle. *Exception:* Futures traders may deduct such charges currently from commodity-related gains as straddle losses.	Same as House bill. No provision.	
62. Hedging exception		*Hedging exception:* Hedging transactions excepted from limitation on straddle losses and capitalization rules. Exemption is unavailable to syndicates. Syndicate is defined as a flow-through entity 1. more than 35 percent of whose losses go to limited partners or limited entrepreneurs, or 2. whose interests must at any time be registered under State or Federal law.	*Hedging exception:* Hedging transactions excepted from mark-to-market, loss deferral, and capitalization rules. Exception is unavailable to syndicates. Syndicate is defined as flow-through entity with more than 35 percent of its losses allocable to limited partners or limited entrepreneurs. Certain family interests, interests held by retired active participants in entity, and by estates of active participants are treated as interests held by active participants. (Floor amendment by Senator Dole, adopted by voice vote.) Secretary given discretion to treat other interests held by individuals as held by active participants, if not used for tax-avoidance.	
63. Characterization of Treasury bills	Gain or loss on certain governmental obligations issued at discount and payable at fixed maturity date less than one year from date of issue, treated as ordinary income or loss.	Treasury bills and other short-term governmental obligations issued at discount treated as capital assets. Portion of gain constituting discount is ordinary income.	Same as House bill.	
64. Dealer identification of securities held as investment	Dealer must identify securities held as investment within 30 days of date of acquisition.	Dealer must identify securities held for investment by close of business on date of acquisition. ***Effective date.***—Applies to property acquired after date of enactment.	Same as House bill, except between date of enactment and January 1, 1982, identification must be done by close of business on first day after date of acquisition. *Exception:* Floor specialists allowed seven business days for designation for stock for which they are registered. (Floor amendment by Senator Moynihan, adopted by voice vote.)	
65. Sale or exchange of capital assets	To be capital gain or capital loss, gain or loss must result from sale or exchange of capital asset.	Taxable dispositions of capital assets, which are commodity-related property, treated as sales or exchanges. ***Effective date.***—Generally effective for property acquired after January 27, 1981. Identification and record-keeping requirements prospective.	Same as House bill. ***Effective date.***—Generally effective for property acquired after June 23, 1981. Same as House bill.	
66. Treasury study	No provision.	Requires Treasury to conduct a study of the effects of the straddles provisions. A first report is due to the Ways and Means and Finance Committees on or before July 1, 1983, analyzing 1981 tax returns, and a second report on or before July 1, 1984, analyzing 1982 tax returns.	No provision.	

K. ADMINISTRATIVE PROVISIONS

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
67. Interest on deficiencies and overpayments	The Treasury must set the deficiency and overpayment interest rate every two years at a rate equal to 90 percent of the prime rate (rounded to the nearest whole percentage point).	Sets interest rate at 100 percent of prime annually. ***Effective date.***—Adjustments made after the date of enactment.	No provision.	
68. Penalty for false withholding allowance certificate	The civil penalty for filing a false W–4 is $50. The criminal penalty for willfully filing a fraudulent W–4 is a fine of $500 and/or 1 year imprisonment.	Increases civil penalty for filing a false W–4 to $500. The criminal penalty is increased to $1,000. ***Effective date.***—Acts and failures to act after December 31, 1981.	No provision.	
69. Penalty for failure to file information returns	The penalty for failure to file certain information returns generally is $1 per return. Most of these statements are not required to be furnished to payees.	The penalty is increased to $10 per return and statements must be supplied to the payee. ***Effective date.***—Returns and statements required after December 31, 1981.	No provision.	
70. Penalty for overstated tax deposits	There is no specific penalty for false returns claiming fictitious deposits of tax.	A penalty of 25 percent is imposed for overstated deposit claims, subject to abatement for reasonable cause. ***Effective date.***—Returns filed after the date of enactment.	No provision.	
71. Penalty for valuation overstatements	There is a 5-percent negligence penalty; there is also a 50-percent civil fraud penalty.	The following additions to tax apply to underpayments of tax resulting from overstatements of a property's value or adjusted basis: *Overstatement* — ***Addition (percent)*** 150 to 200 percent — 10 200 to 250 percent — 20 Over 250 percent — 30 *Exceptions.*—Underpayments of less than $1,000; property held over 5 years. ***Effective date.***—Returns filed after December 31, 1981.	Same as House bill. (Floor amendment by Senator Wallop, adopted by voice vote) ***Effective date.***—Same as the House bill.	

K. ADMINISTRATIVE PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
72. Addition to negligence penalty	There is a 5-percent negligence penalty; there is also a 50-percent civil fraud penalty.	Adds to tax an amount equal to 50 percent of interest on underpayment due to negligence. ***Effective date.***—Applies to taxes the last payment date for which is after December 31, 1981.	No provision.	
73. Disclosure of returns and return information for purposes not relating to tax administration	Under present law, Federal agencies may, in certain circumstances, receive tax returns, taxpayer return information (i.e., books and records supplied by the taxpayer), and return information from the Internal Revenue Service for their use in nontax criminal investigations. Returns and taxpayer return information are available only pursuant to an ex parte order granted by a Federal district court judge. Return information, other than taxpayer return information, may be received by written request. The IRS may refuse to disclose tax returns, taxpayer return information, or return information if it determines that disclosure would identify a confidential informant or seriously impair a civil or criminal tax investigation. Present law also permits the IRS to disclose return information, other than taxpayer return information, which may constitute evidence of a violation of Federal criminal laws, to the extent necessary to apprise the head of the appropriate Federal agency charged with enforcing such laws. Under present law, the unauthorized disclosure of tax returns or return information is a felony punishable upon conviction by a fine of not more than $5,000 or imprisonment of not more than 5 years, or both. Under present law, a taxpayer may bring a civil action for damages against a person who knowingly or negligently discloses returns or return information in violation of the disclosure provisions.	No provision.	The provision changes the definition of return information and relaxes the standards for obtaining an ex parte court order for the disclosure of returns and books and records of individuals. In addition, the books and records of any business entity consisting of more than two owners would be available upon written request. Return information that has been disclosed to the Justice Department may be disclosed, further, to other Federal agencies and witnesses; and, may, pursuant to court order, be disclosed to State law enforcement officials. The IRS would be required to disclose any nonreturn information that may constitute evidence of a violation of Federal criminal law to the appropriate Federal agency. Moreover, in certain emergency situations, the IRS would be required to disclose returns on its own initiative. In certain circumstances, the bill would permit disclosure of returns and return information to foreign law enforcement officials. The bill provides that a Federal employee will not be criminally liable for a wrongful disclosure that results from a good faith but erroneous interpretation of the law while the employee was acting within the scope of his employment. Moreover, any civil action for wrongful disclosure would be brought against the appropriate Federal agency, rather than a Federal employee. (Floor amendment by Senator Nunn, adopted by voice vote; motion to table defeated 28–66.) ***Effective date.***—The provisions would be effective on enactment.	

K. ADMINISTRATIVE PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
74. Confidentiality of certain IRS information	Present law restricts the disclosure of tax returns and return information. However, information that cannot identify any particular taxpayer is not protected under the disclosure restrictions. Because of this, questions have been raised concerning whether the IRS can legally refuse to disclose information which is used to develop standards for auditing tax returns.	The provision makes it clear that information used in developing audit standards is to be kept confidential (i.e., subject to all present law restrictions on disclosure). ***Effective date.***—The provision applies to disclosures after July 19, 1981.	No provision.	
75. Tax Court filing fee	The Tax Court is authorized to impose a fee of up to $10 for the filing of any petition.	No provision.	The provision would authorize the Tax Court to impose a filing fee of up to $60. (Floor amendment by Senator Dole, adopted by voice vote.) ***Effective date.***—The provision would apply to petitions filed after December 31, 1981.	
76. Cash management: Corporate estimated tax payments	Corporations generally must pay 80 percent of their current year's tax liability in quarterly estimated tax payments during the taxable year. Corporations generally are exempt from the penalty for underpayment of estimated tax if their estimated tax payments equal 100 percent of their prior year's tax liability. However, corporations whose taxable income exceeded $1 million in any of the three preceding taxable years must pay estimated tax of at least 60 percent of current year's tax liability regardless of their prior year's tax liability.	Corporations whose taxable income exceeded $1 million in any of three preceding taxable years would be required to pay estimated tax of at least 80 percent of current year's tax liability regardless of their prior year's tax liability. ***Effective date.***—Taxable years beginning after December 31, 1981.	Same as the House bill, except that the 80 percent requirement is phased in over a three-year period. In 1982, large corporations would have to be at least 65 percent current with estimated tax payments. This would increase to 75 percent in 1983, and to 80 percent for 1984 and subsequent years. (Floor amendment by Senator Dole, adopted by voice vote.) ***Effective date.***—Taxable years beginning after December 31, 1981.	
77. Declaration and payment of estimated taxes by individuals	In general, individuals whose tax liability, over amounts withheld during the year, is less than $100 are not required to file declarations of estimated taxes.	The bill increases the tax liability threshold for the payment of estimated taxes from $100 to $500 over a four year period, as follows: *Taxable years beginning in* — *Threshold amount* 1982 — $200 1983 — 300 1984 — 400 1985 and thereafter — 500 ***Effective date.***—The increases in the tax liability threshold begin in taxable years beginning after December 31, 1981.	No provision.	

K. ADMINISTRATIVE PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
78. Railroad retirement taxes	***Tier-II taxes.***—The current structure of the railroad retirement system stems from a reorganization enacted in 1974. The system was divided into two "tiers," one of which roughly approximates social security (tier I), and the other, an industry staff retirement benefit (tier II). The first tier pays benefits based upon combined railroad industry and any social security covered earnings and is financed by a tax on employers and employees on the same basis as social security. The second tier is related to service in the railroad industry and is financed by taxes on industry employers. Currently, the industry pension tier-II component is a principal factor causing the system's financial problems. Under present law (code section 3221), there is imposed on railroad employers a tax of 9.5 percent of compensation paid in a calendar month, subject to a maximum limitation. Currently, the annual taxable compensation base is $22,200; however, in no case does the tax apply to any amount paid in a month in excess of one-twelfth of the annual limitation ($1,850 in 1981). The annual (and monthly) limitation on taxable compensation for the purposes of section 3221 is indexed pursuant to section 230 (c) and (d) of the Social Security Act. The rate of tax under section 3221 applies to employers only.	***Tier-II taxes.***—Pursuant to a negotiated agreement between railway management and labor, the provision would provide for adjustments in the financing of the tier-II pension component. The tax on employers under section 3221 would be increased from 9.5 to 11.75 percent, an increase of 2.25 points. In addition, the committee provision would provide for a new tax of 2 percent on the compensation of employees (as defined in section 3221).	No provision.	
	Advance transfers to the railroad retirement account.—Since 1946, the railroad retirement system and the social security programs have been coordinated. Presently, the two systems are coordinated through a complex financial interchange, linking benefits and taxes under the OASDHI program with the tier-I railroad benefit component. Generally, under the interchange, for a given fiscal year there is computed the amount of social security taxes that would have been collected if railroad employment had been covered directly by social security. This amount is netted against the amount of benefits social security would have paid to railroad beneficiaries based on railroad and nonrailroad earnings during that period. Where social security benefits that would have been paid exceed social security taxes that would have been due,	***Advance transfers to the railroad retirement account.***—In order to make available to the Railroad Retirement Account funds from the forthcoming financial interchange in the event of inadequate reserves in months prior to the transfer, the provision would provide advanced, limited transfers to the Railroad Retirement Account from the general fund in amounts necessary to make monthly benefit payments. In no case would the amounts outstanding at any time for any fiscal year under this authority exceed the estimated interchange transfer for that fiscal year. The Board would pay the prevailing rate of interest currently being paid on short-term instruments of the Department of the Treasury on amounts transferred under this authority. The borrowing authority would be effective upon enactment.		

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
78. Railroad retirement taxes—Continued	the excess, plus an allowance for interest and administrative expenses, is transferred from the social security trust funds to the Railroad Retirement Account. That transfer is estimated to be approximately $1.6 billion for fiscal year 1981. The financial interchange amount for a given fiscal year is determined and transferred no later than June of the year following the close of the preceding fiscal year.			
	Payments of employee taxes by railroad employers.—Under present law (code section 3221(e)(1)(iii), payments made by railroad employers of railroad employee taxes under section 3211 without deduction from the remuneration of the employee are excluded from the definition of compensation for the purposes of the Railroad Retirement Tax Act (RRTA). Until 1981, a similar provision was included in the Federal Insurance Contributions Act (code section 3121(a)(6) and section 209(f) of the Social Security Act). The exclusion of such payments from the definition of wages for FICA tax and social security benefit computation purposes was eliminated by section 1141(a)(1) of Public Law 96–499, the Omnibus Reconciliation Act of 1980.	***Payments of employee taxes by railroad employers.***—The provision would amend the Railroad Retirement Tax Act so that payments by an employer of employee railroad payroll taxes, without deduction from the employee's remuneration, would be included in taxable compensation for RRTA purposes. This change will conform the provisions of the Railroad Retirement Tax Act to the corresponding provisions of the recently amended Federal Insurance Contributions Act. The changes made by this provision would be effective with respect to compensation paid for services rendered after September 30, 1981.		
	Definition of compensation.—Under present law, there is imposed on employers a tax on so much of compensation paid in any calendar month by such employer for services rendered by an employee. It is unclear whether the intent of the law is to tax compensation when paid or when earned.	***Definition of compensation.***—The bill provides that compensation that is paid in one calendar month but that would be payable in a prior or subsequent taxable month but for the fact that the prescribed date of payment would fall on a Saturday, Sunday, or legal holiday will be deemed to have been paid in such prior or subsequent taxable month. The bill thus makes clear the treatment for RRTA purposes of compensation "bunched" in any month for services rendered in the preceding month. This provision generally applies to taxable years ending on or after the date of enactment. It also applies in taxable years ending before enactment for which the period for assessment, collection, or claim for credit or refund of taxes has not expired.		

L. MISCELLANEOUS PROVISIONS

Item	Present law	House Bill	Senate Amendment	Conference Agreement
79. State legislators' travel expenses	State legislators may elect to treat the district represented as their tax home. "Away-from-home" rule applies.	Generally same as present law, but repeals "away-from-home" rule for past and future years.	Same as House bill, but repeals "away-from-home" rule for future years only.	
		After 1980, general rule does not apply to any legislator living within 50 miles of State capitol.	After 1980, general rule does not apply to any legislator living within 50 miles of capital city.	
	Per diem deduction.—Federal.	*Per diem deduction.*—Greater of: Federal or State (not over 110 percent of Federal).	*Per diem deduction.*—Same as House bill. (Floor amendment by Senator D'Amato, adopted by voice vote.)	
	Effective date.—Taxable years beginning before 1981.	***Effective date.***—Taxable years beginning after 1972.	***Effective date.***—Taxable years beginning after 1980.	
80. Fringe benefit regulations	Regulations were prohibited before June 1, 1981.	Extends prohibition until May 31, 1983.	Extends prohibition until December 31, 1983. (Floor amendment by Senator Mattingly, adopted by voice vote.)	
81. Commuting expense regulations	Regulations were prohibited before June 1, 1981.	Extends prohibition until May 31, 1983.	No provision.	
82. Campaign funds	Non-exempt function income is taxed at highest corporate rate (i.e., 46 percent).	No provision.	Non-exempt function income of a congressional candidate's "principal campaign committee" is taxed at graduated rates applicable to corporate taxable income. (Floor amendment by Senator Ford, adopted by voice vote.) ***Effective date.***—Taxable years beginning after 1981.	
83. Tax-exempt bonds for mass transit	In general, tax-exempt industrial development bonds may be issued by a State or local government to provide facilities for certain exempt activities, which include mass commuting facilities. These facilities do not include the equipment used for commuting in a mass transit system.	Interest on obligations of a State or local government issued before December 31, 1984, will be exempt from Federal income tax, if the proceeds are used to provide qualified mass commuting vehicles that are leased to a mass transit system wholly owned by 1 or more governmental units to provide mass commuting services. A qualified mass commuting vehicle is defined to mean any bus, subway car, rail car, or similar equipment used in a mass transit system for commuting purposes.	No provision.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
84. Tax-exempt bonds for volunteer fire departments	In general, obligations issued by States or their political subdivisions are exempt from Federal income tax. Volunteer fire departments are not considered to be political subdivisions and, thus, cannot issue tax-exempt bonds on their own behalf.	The bill treats an obligation of a volunteer fire department as an obligation of a political subdivision of a State if the following conditions are met: (1) the volunteer fire department is the sole organization providing firefighting services in a particular area; (2) the volunteer fire department is required by the political subdivision, by agreement or otherwise, to provide firefighting services; (3) the volunteer fire department receives more than half of its funds from political subdivisions: and (4) the volunteer fire department makes no charge for its firefighting services. Tax-exempt obligations could be used only to finance (1) depreciable property that is used in training for, or the performance of, firefighting or ambulance services, or (2) depreciable property used to house such property. ***Effective date.***—The provision is effective for obligations issued after December 31, 1980.	The bill treats an obligation of a volunteer fire department as an obligation of a political subdivision of a State if the following conditions are met: (1) the volunteer fire department is organized and operated to provide firefighting or emergency medical services in an area that is not provided with firefighting services, and (2) the volunteer fire department is required by written agreement to provide firefighting services. Tax-exempt obligations could be used only to finance (1) depreciable property that is used in training for, or the performance of, its firefighting or ambulance services or (2) depreciable property used *exclusively* to house such property. (Floor amendment by Senator Lugar, adopted by voice vote.) ***Effective date.***—The bill applies to obligations issued after December 31. 1968.	
85. Modification of foreign investment company provisions	In general, gain on the sale of stock is treated as capital gain. However, gain on the sale of stock in a foreign investment company is treated as ordinary income to the extent of all post-1962 earnings and profits accumulated while the shareholder held the stock (sec. 1246). Even gain attributable to periods when the company was not a foreign investment company is treated as ordinary income.	No provision.	Gain on the sale of stock in a foreign investment company which is attributable to periods prior to when the corporation became a foreign investment company will not be treated as ordinary income under section 1246. It will be taxed as ordinary income or capital gains according to other applicable provisions of the Code, including section 1248. (Floor amendment by Senator Boren, adopted by voice vote.)	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House Bill	Senate Amendment	Conference Agreement
86. Charitable contributions by corporations	Under present law, a corporation's deduction for charitable contributions may not exceed 5 percent of taxable income.	No provision.	The bill would increase the limitation on a corporation's charitable contribution deduction to 10 percent of taxable income. (Floor amendment by Senator Kennedy, adopted by vote of 88–5.) ***Effective date.***—The provision would apply in taxable years beginning after December 31, 1981.	
87. Unemployment tax status for certain fishing boat services	Under present law, certain crew members of fishing boats are treated as self-employed individuals rather than as employees for purposes of the Federal Insurance Contributions Act (FICA) and income tax withholding. However, services which are not subject to FICA taxes are not exempt for purposes of the Federal Unemployment Tax Act (FUTA) if the services are related to catching halibut or salmon for commercial purposes or if the services are performed on a vessel of more than ten net tons.	No provision.	The provision would exclude from coverage, for purposes of FUTA, those services of fishing boat crew members that currently are excluded for purposes of FICA and income tax withholding. In addition, the provision would allow employers who paid FICA taxes prior to enactment of the Tax Reform Act of 1976 for services exempted from FICA tax by that Act to claim a refund of those taxes within one year of the date of enactment of this Act. (Floor amendment by Senator Cohen, adopted by voice vote.) ***Effective date.***—The FUTA tax exemption would apply to wages paid after December 31, 1980, for services performed after that date. The provision allowing a refund of FICA taxes paid would be effective on the date of enactment.	
88. Tax credit for planting certain pecan trees	Present law allows taxpayers to take deductions for uninsured business losses and for certain uninsured casualty losses. In general, this deduction cannot exceed the adjusted basis of the property destroyed. In addition, capital costs incurred in bringing fruit-bearing trees to the income-producing stage have been held to qualify for the investment tax credit.	No provision.	The provision would allow a $10 per tree tax credit for planting pecan trees to replace pecan trees that were destroyed, in September 1979, by Hurricane Frederick. (Floor amendment by Senator Heflin, adopted by voice vote.) ***Effective date.***—The credit would be available for planting expenses incurred after August 31, 1979, and before January 1, 1986.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House Bill	Senate Amendment	Conference Agreement
89. Mortgage subsidy bonds for State of Oregon	Under the Mortgage Subsidy Bond Tax Act of 1980, limitations have been imposed on the issuance of tax-exempt mortgage subsidy bonds for the purchase of owner-occupied homes, effective 1/1/81. Transition rules apply to certain issues. Qualified veterans mortgage bonds are exempt from the limitation, if they are general obligation bonds, are in registered form, and the proceeds generally are not used to refinance existing mortgages.	No provision.	Permits issuance of $66.5 million of State of Oregon general obligation bonds for which commitments were delayed beyond the effective date of the Act. (Floor amendment by Senator Hatfield, approved by voice vote.)	
90. 2-year extension of telephone excise tax at 1 percent	Under present law, the excise tax imposed on communication services (local telephone, toll telephone and teletypewriter services) for 1981 is 2 percent of amounts paid for services. The tax is scheduled to be 1 percent for 1982 and to expire as of January 1, 1983.	No provision.	The amendment would extend by two years the termination of the telephone exise tax. Thus, the tax will be 1 percent for 1982, 1983, and 1984, and will expire as of January 1, 1985. (Floor amendment by Senator Heinz, adopted by vote of 95–3.)	
91. Exemption from firearms excise tax for small producers	Present law (Code sec. 4181) imposes an excise tax on firearms generally and on shells and cartridges at a rate of 11 percent of the manufacturer's sales price. Also, a tax of 10 percent is imposed on pistols and revolvers. There are no exemptions except for sales to the Defense Dept.	No provision.	The amendment would provide an exemption from the excise taxes on firearms, pistols, and revolvers for small producers (e.g., custom gunsmiths and gunstockers) who produce or assemble 50 or fewer complete firearm units per year. The amendment would also exempt from the tax on ammunition hand-loaded shells or cartridges for individuals who load it for themselves or for others on a nonprofit basis. (Floor amendment by Senator Sasser, adopted by voice vote.) ***Effective date.***—Provision relating to shells or cartridges is effective upon enactment. The small producer exemption is effective for sales made after December 31, 1975.	

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
92. Amortization of construction period taxes and interest	Generally, taxpayers other than most corporations are required to capitalize and amortize construction period interest and taxes (sec. 189). This rule is not applicable to low-income housing until after December 31, 1981.	Delays application of section 189 to low-income housing until 1983.	Excludes application of section 189 to low-income housing; phases out application to other residential housing for post-1986 years; repeal of section 189 for post-1990 years. (Floor amendment by Senators Dodd and Heinz, adopted by voice vote.) ***Effective date.***—In general, applies to amounts paid or accrued in taxable years beginning after December 31, 1981.	
93. Amortization of low-income housing rehabilitation expenditures	Taxpayer may elect to amortize qualified low-income housing rehabilitation expenditures over a 60-month period; amount of expenditures limited to $20,000 per dwelling unit (sec. 167(k)).	No provision.	Increases amount of allowable expenditures eligible for amortization to $40,000 per unit in certain situations providing for sale of units to tenants. (Floor amendment by Senator Quayle, adopted by voice vote.) ***Effective date.***—Applies to amounts paid or incurred after December 31, 1980.	
94. Investment credit for theatrical productions and TV game shows	No investment credit is allowed for the theatrical productions. No investment credit is allowed for films of television game shows.	No provision.	Investment credit allowed for live plays, musical, opera, and ballet productions. Investment credit for movie and television films extended to television game shows. At-risk rules apply. (Floor amendment by Senator Stevens, adopted by voice vote). ***Effective date.***—Applies to production costs incurred after December 31, 1981.	

K. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
95. Foreign investment in U.S. real property	Under legislation enacted in December of 1980, foreign investors in certain U.S. real property interests are taxable by the U.S. on the gain realized when they dispose of the interest. The provisions are enforced through information reporting. The legislation overrides certain nonrecognition provisions of the Code to insure U.S. taxation of the gain. The legislation was effective for dispositions after June 18, 1980. Treaties were overriden, but generally not until 1985.	No provision.	(*a*) *Withholding*— Taxation of foreign investors in U.S. real property interests would be enforced through withholding. Purchasers of U.S. real property interests from foreign owners, and certain of their agents, would be required to withhold a portion of the purchase price. Withholding would apply only if the purchaser had actual knowledge that the seller was foreign. Agents would have to withhold if they had knowledge, reason to believe, or notice. The Secretary could reduce or eliminate withholding on request in certain cases. The Secretary is authorized to remove current reporting obligations that are not needed because of withholding. (*b*) *Technical corrections*— It would be made clear that certain nonrecognition provisions of the Code are overridden. Also, effective date problems and problems of coordination would be clarified. (Floor amendment by Senator Dole, adopted by voice vote.) ***Effective date.***—Withholding for amounts paid on or after January 1, 1982. Technicals, for dispositions after June 18, 1980.	
96. Payout requirements of private foundations	Requires distributions by private foundations for charitable purposes of greater of net investment income or 5 percent of value of investment assets.	No provision.	Reduces payout requirement to 5 percent of value of investment assets. (Floor amendment by Senator Durenberger, adopted by voice vote.) ***Effective date.***—Taxable years after December 31, 1980.	
97. Imputed interest rates on installment sales	Section 483 requires that a minimum portion of payments under an installment sales contract be treated as interest. The current rate used for this purpose is 10 percent in the case of contracts that do not provide for interest of at least 9 percent.	No provision.	The maximum imputed interest rate for sale of non-depreciable property for less than $2 million is set at 7 percent. (Floor amendment by Senator Melcher, adopted by a vote of 100–0). ***Effective date.***—Transactions occurring after June 30, 1981.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
98. Bad debt deduction of commercial banks	Commerical banks compute bad debt deduction under either experience method or percent of outstanding loans method. Under the percent of outstanding loans method, deductions are permitted to extent necessary to increase bad debt reserve to following percentages of outstanding loans: *Percent* 1969-1975 .... 1. 8 1976–1981 .... 1. 2 1982–1987 .... 0. 6 After 1987, bad debt deduction is computed under the experience method only.	No provision.	Allows commercial banks to compute their bad debt deduction by increasing bad debt reserve to 1.0 percent of outstanding loans for 1982 only (instead of 0.6 for 1982 under present law). (Floor amendment by Senator Bentsen, adopted by voice vote.)	
99. Home heating oil credit	There is no tax credit allowed with respect to home heating oil costs.	No provision.	There will be a credit allowed in 1981 for home heating costs. The credit will be calculated by multiplying heating costs by 40 percent of the increase in the consumer price index. The maximum allowable credit will be $200 and will phase out as the taxpayer's adjusted gross income increases from $15,000 to $25,000. Special rules are provided for households with more than one person and for tenants who do not pay separately for heating. (Floor amendment by Senator Rudman, adopted by a vote of 71–25.)	
100. Deduction for gifts and awards	An employer is not permitted to deduct the costs of awards of tangible personal property to employees in recognition of length of service or safety achievement in excess of $100.	No provision.	The $100 limitation of present law is increased to $400. Also allows deductions for awards of up to $1,600 under specified plans if the average cost per award does not exceed $400 and if nondiscrimination rules are met. (Floor amendment by Senator Garn, adopted by a voice vote.) ***Effective date.***—Taxable years ending on or after the date of enactment.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
101. **Reorganizations involving financially troubled thrift institutions**				
a. Tax-free reorganization status	Tax-free mergers or other reorganizations permitted only if nonstatutory "continuity of interest" requirement is met. Present law unclear how "continuity of interest" requirement applies to mutual thrift institutions.	Allows tax-free reorganizations of thrift institutions undertaken in connection with case under jurisdiction of Federal Home Loan Bank Board or Federal Savings and Loan Insurance Corporation without regard to "continuity of interest" requirement.	Same as House bill. (Floor amendment by Senator Boschwitz, adopted by voice vote.)	
b. Net operating loss carryovers	Limitations are imposed on use of pre-reorganization net operating loss carryovers where shareholders of acquired corporation are not shareholders of surviving corporations in a merger or other reorganizations.	Allows net operating loss carryovers to surviving corporation after a reorganization of thrift institution under jurisdiction of Federal Home Loan Bank Board or Federal Savings and Loan Insurance Corporation so long as depositors in acquired thrift institution are depositors in surviving corporation.	Same as House bill. (Floor amendment by Senator Boschwitz, adopted by voice vote.)	
c. Recapture of excess bad debt deductions	Distributions out of excess bad debt reserves of buildings and loan associations are recaptured as ordinary income.	Recapture rule does not apply to distributions *to the Federal Savings and Loan Corporation* with respect to interests contributed under financial assistance program.	Recapture rule does not apply to distributions *to any person* with respect to interests originally received by the Federal Savings and Loan Corporation under financial assistance plan. (Floor amendment by Senator Boschwitz, adopted by voice vote.)	
d. Contributions to capital	Contributions to capital by nonshareholder are excluded from income of recipient corporation, but basis of property is reduced by such contributions.	Excludes from income of building and loan association all money or property contributed to thrift institution by Federal Savings and Loan Insurance Corporation under financial assistance program without reduction in basis of property. ***Effective date.***—Amendments apply to transfers, distributions, and payments on or after January 1, 1981.	Same as House bill. (Floor amendment by Senator Boschwitz, adopted by voice vote.) ***Effective date.***—Same as House bill.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
102. Tax treatment of mutual savings banks which convert to stock associations				
a. Bad debt deductions	Building and loan associations, cooperative banks, and nonstock mutual savings banks are allowed a bad debt deduction equal to 40 percent of taxable income if 82 percent of assets of building and loan association or cooperative bank (72 percent of assets of mutual savings bank) are invested in certain assets. Distributions by building and loan association out of excess bad debt reserves are recaptured as ordinary income.	No provision.	Allows bad debt deduction of 40 percent of taxable income to mutual savings banks which convert to stock associations on the same basis as building and loan associations. (Floor amendment by Senator Gorton, adopted by voice vote.)	
b. Life insurance activities	Mutual savings banks are permitted to compute the tax on their life insurance business as if life insurance business was in a separate corporation subject to special rules applicable to life insurance companies.	No provision.	Extends special rule for life insurance business to mutual savings banks which convert to stock associations. (Floor amendment by Senator Gorton, adopted by voice vote.) ***Effective date.***—Taxable years ending after date of enactment.	
103. Restricted property	Property transferred in connection with the performance of services is not taxed if it is subject to a substantial risk of forfeiture or to a restriction on transferability. However, restrictions arising from securities laws or certain accounting rules are not considered sufficient to prevent inclusion in income.	Permits a taxpayer who receives stock subject to certain Federal securities law restrictions on the "pooling-of-interests" accounting rules to include the value of the stock in income when these restrictions terminate. ***Effective date.***—Taxable years ending after December 31, 1981.	No provisions.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
104. Deduction for certain adoption expenses	Under present law, the expenses paid or incurred in connection with the adoption of a child are nondeductible, personal expenses.	No provision.	The bill permits taxpayers, whether or not they itemize deductions, to deduct up to $1,500 of expenses paid or incurred in connection with the adoption of a qualified child. A qualified child would be a child who is: (1) a member of a minority race or ethnic group (Black, Hispanic, Mexican, Puerto Rican, or Native American), (2) age 6 or older, or (3) is handicapped. In addition, the deduction (up to $1,500) would be available to a taxpayer who adopts each member of a sibling group. The deduction would not be available for international adoptions. (Floor amendment by Senator Jepsen, adopted by voice vote.) ***Effective date.***—Taxable years beginning after December 31, 1980.	
105. Separate report on Social Security trust funds	Reports on the financial status of the Social Security trust funds are included within the context of annual submission of the unified budget in January and the (July 15) mid-session budget review.	No provision.	In the annual budget message and the (July 15) mid-session budget review, the President would be required to include a separate volume which presents the financial status of the Federal Old-Age and Survivors Insurance, Federal Disability Insurance and Federal Hospital Insurance trust funds. The special section would show the receipts, outlays and surplus/deficit estimates for the trust funds, would describe the economic assumptions that were used in making the estimates for the trust funds and the relationship to economic assumptions made for other parts of the budget, would indicate the financial prospects of the trust funds, and would present a comparative summary of the 3 trust funds with all the other portions of the unified budget. This report would be in addition to the usual budget submission which includes the budget estimates for the trust funds within the unified budget estimates. ***Effective date.***—Each fiscal year after September 30, 1982.	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present law	House Bill	Senate Amendment	Conference Agreement
106. Congressional Budget Office reports on state of the economy	CBO reports to the House and Senate Budget Committees, by April 1 of each year, on the economic outlook and related fiscal policy and budget matters. Report covers President's budget submission and relevant alternative considerations. In addition, CBO submits additional reports relating to the economy and fiscal and budget policy, as may be necessary during the year.	No provision.	CBO is to report to Congress quarterly on the extent that the purposes and goals of the Economic Recovery Tax Act of 1981 and the Omnibus Reconciliation Act of 1981 are being accomplished. If expectations of economic performance are not realized, CBO is instructed to recommend available options and actions that may be taken to improve economic performance. First report is due by January 31, 1982. In event of negative real growth in two successive quarters, CBO is to submit monthly reports. (Floor amendment by Senator Heflin, adopted by voice vote.)	
107. Level of interest rates (Sense of the Senate)	No provision.	No provision.	Since persistent high interest rates have meant reduced credit for small commercial, financial, industrial and construction enterprises and the recent increase in merger activity in all areas is being financed with massive lines of credit, it is the Sense of the Senate that the President should adopt policies to ensure the independence, credit availability, and financial health of small enterprises, the Federal Reserve Board should exercise its regulatory power to require that loans be used for productive purposes rather than business mergers, and the President, Federal Reserve Board and Congressional Budget Office should report annually on the actions taken to implement these policies and the degree of success or failure, beginning on January 1, 1982, and by January 1 of each subsequent year. (Floor amendment by Senator Chiles, adopted by a vote of 100–0.)	

L. MISCELLANEOUS PROVISIONS—Continued

Item	Present Law	House Bill	Senate Amendment	Conference Agreement
108. Limitation on revenue losses (Sense of the Senate amendment)	The Conference Report on the First Congressional Budget Resolution for fiscal year 1982 set the following targets for revenue reductions— *Fiscal Year* — *Revenue loss (billions)* 1981 -------------------- −$8. 6 1982 -------------------- −51. 3 1983 -------------------- −97. 1 1984 -------------------- −144. 8	No provision; estimated revenue loss in bill is— *Fiscal Year* — *Revenue loss (billions)* 1981 -------------------- −$1. 7 1982 -------------------- −36. 4 1983 -------------------- −95. 8 1984 -------------------- −153. 3	A Sense of the Senate Resolution would limit the revenue loss in this bill to the amounts listed below; (Floor amendment by Senator Dole, approved 95–1) *Fiscal Year* — *Revenue loss (billions)* 1981 -------------------- −$1. 5 1982 -------------------- −38. 3 1983 -------------------- −91. 8 1984 -------------------- —150. 0	
109. Interfund borrowing among social security trust funds (Sense of the Senate amendment)	No provision.	No provision.	Sense of the Senate that the Senate Finance Committee report a bill to the Senate by November 15, 1981, which would authorize interfund borrowing among the social security trust funds, or other such measures as may be required. (Floor amendment by Senator Sasser; approved 89–4.)	

II. COMPARATIVE REVENUE EFFECTS

TABLE 1.—SUMMARY OF ESTIMATED REVENUE EFFECTS OF THE PROVISIONS OF H.R. 4242 AS PASSED BY THE HOUSE, FISCAL YEARS 1981–1986
[Millions of Dollars]

Provision	1981	1982	1983	1984	1985	1986
Individual income tax provisions	−51	−27, 104	−71, 115	−114, 639	−147, 985	−196, 049
Business tax cut provisions	−1, 610	−10, 978	−19, 342	−29, 267	−40, 169	−55, 384
Energy tax provisions	−97	−1, 725	−2, 472	−3, 205	−4, 174	−5, 235
Savings incentive provisions		−335	−1, 955	−3, 831	−4, 282	−6, 435
Estate and gift tax provisions		−222	−2, 156	−3, 268	−4, 310	−5, 635
Tax straddles	100	940	([1])	([1])	([1])	([1])
Administrative provisions		3, 025	1, 262	941	578	640
Miscellaneous provisions		−25	−31	−25	−50	−63
Total Revenue Effect	**−1, 658**	**−36, 424**	**−95, 809**	**−153, 294**	**−200, 392**	**−268, 161**

[1] Estimates for this year will depend upon judicial decisions.

TABLE 2.—SUMMARY OF ESTIMATED REVENUE EFFECTS OF THE PROVISIONS OF THE BILL AS PASSED BY THE SENATE, FISCAL YEARS 1981–1986
[Millions of Dollars]

Provision	1981	1982	1983	1984	1985	1986
Individual income tax provisions	−39	−26, 914	−71, 173	−114, 854	−148, 908	−196, 207
Business tax cut provisions	−1, 517	−10, 262	−17, 966	−27, 309	−38, 089	−53, 549
Energy tax provisions		−924	−930	−1, 111	−1, 468	−2, 136
Savings incentive provisions		−115	−1, 235	−4, 633	−6, 739	−8, 014
Estate and gift tax provisions		−137	−1, 844	−2, 742	−3, 833	−4, 975
Tax straddles [1]	37	623	327	273	249	229
Administrative provisions		614	1, 522	1, 190	201	−142
Miscellaneous provisions	−1	−601	275	586	90	−298
Total Revenue Effect	**−1, 520**	**−37, 716**	**−91, 024**	**−148, 600**	**−198, 497**	**−265, 092**

[1] Revenue effects for 1983 through 1986 reflect contracts entered into prior to January 1, 1982.

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